HOW TO LAUNDER MONEY



Post Office Box 47095, Kansas City, Missouri 64188

(A Subsidiary of The RESISTER)

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Introduction

Beginning in 1996 the United States government will begin exchanging its inherently worthless Federal Reserve scrip for new, equally worthless scrip. This process will begin with \$100 scrip, and progress to \$5 scrip in approximately 6 month increments. There will, in fact, be two "currencies." A continental U.S. "currency," and an overseas "currency." It will be illegal to possess continental scrip overseas, or overseas scrip on the continent. This raises the legitimate question; "Which of these two so-called currencies is intended to be the <u>real</u> U.S. "currency?" It can not be both. The answer is that neither of these scrips will be (nor is the current scrip) legitimate U.S. currency.

Article I, Section 8 of the Constitution delegates to Congress the power; "To coin Money, regulate the Value thereof, and of foreign Coin..." Article I, Section 9 of the Constitution states further that, "No State shall...make any Thing but gold and silver Coin a Tender in Payments of Debts..."

Have you seen "...gold and silver Coin..." used as legal tender any time recently? You have not. The reasons you have not are 1) because the Fabian Socialist Woodrow Wilson established the Federal Reserve, a private bank masquerading as a national bank, contrary to the established precedent of the unconstitutionality of a "national bank," and 2) the crippled crypto-communist Franklin Delano Roosevelt was responsible for the confiscation of legal tender and the regulation of private business which laid the groundwork for the *Zwangwirtschaft* (compulsory economy) we suffer under today.

The gratuitous explanations for the forthcoming scrip exchange are 1) to prevent drug dealers from laundering Federal Reserve scrip overseas, and 2) to prevent counterfeiting of U.S. "currency" by terrorists. Like everything else connected to the so-called War on Drugs and anti-terrorism, this is a lie. The real purpose of the scrip exchange is to account for, tax

and seize the thousands of millions in unaccounted for scrip held by hard working Americans who refuse to have the fruits of their labor looted by the federal government's armed extortion ring—the Internal Revenue Service—to be redistributed to pork-barrel hitch-hikers, subsidy hand-out artists, entitlement moochers, welfare parasites, Second-World peasants and Third-World savages.

Senate Bill S. 307, the "Counterfeiting and Money Laundering Deterence Act of 1995," is legislation designed to confiscate the unaccounted for wealth of Americans. Subchapter II of chapter 51 of title 31, United States Code, will be amended by the addition of section 5123. Paragraph (c)(2)(A) "Exchange Requirements." This section dictates that all currency to be exchanged must be exchanged "at financial institutions regulated under United States law and subject to United States currency transaction reporting..." This means that any Federal Reserve scrip exchanged will be reported to the IRS and then be subject to taxation.

The exchange of scrip will be closely monitored by the federal government to determine how much scrip has not been exchanged under this 'law.' Paragraph (d)(2)(f) "Financing," provides that the regulatory costs of this 'legislation' will be financed by "Credit resulting from extinguished claims against the United States Treasury for amounts that are not exchanged within the specified exchange period..." In other words, if you don't exchange your scrip within the stated time period to do so, the scrip you attempt to exchange after the time period allocated to do so has extinguished will be confiscated to pay for the provisions of this 'law.'

Senate Bill S. 307 will do exactly nothing to prevent the laundering of money from drug sales, or the circulation of counterfeit Federal Reserve scrip by overseas terrorists. This Bill's sole purpose is to confiscate the saved wealth of American citizens (the federal government calls it "hoarding.")

The purpose of this book is to educate patriots in both the procedures used by federal investigators to track money, and to illustrate the principles, methodology and techniques of laundering money to keep it secure from federal confiscation. Admittedly, some of the information in this book is dated and must be compared to current legislation and regulatory countermeasures. However, the principles outlined are timeless, only the specific techniques used are subject to change based on current circumstances.

A Quick and Dirty Guide to Money Laundering

Money laundering has been practiced in some form since man started using money. A precious stone could be stolen and then broken into several parts, which could then be sold without detection or punishment. Laundering of money is no different in principle from changing the identity of a ruby or an emerald and making the end product reputable. The only difference is the item being laundered.

The main reason why money is laundered is to avoid discovery of the original source from which the money is obtained—that is, to avoid government detection. However it would still

be difficult to avoid tax detection if the money is not "legitimized." But if both money laundering and tax evasion are done carefully, it is almost impossible for the perpetrators to get caught.

Money obtained illegally, or money that wants to preserve its anonymity, can be identified. The identification of the person receiving illegally obtained money and the knowledge obtained in tracing the funds can assist law enforcement officers in connecting the person, or persons, with the crime.

In the United States, Australia, and many other countries, tax officials have more authority and fewer restrictions than law enforcement officers. In the United States, the Internal Revenue Service can perform investigations or searches without a search warrant, while a police officer cannot. The Internal Revenue Service has a fairly free hand in interpreting the law and operates without restraint or latitude.

The most famous case of this kind was that of Al Capone over 60 years ago. Law enforcement agencies believed that he was involved in bootlegging, murder, bribery, and a myriad of other serious crimes against persons and property. He was, however, never convicted of any of these crimes. He was convicted and imprisoned on tax evasion, because the tax authorities could 'legally' obtain records that law enforcement officers could not obtain.

The power of the Internal Revenue Service in the United States is enormous. As an example, the penalty for willful failure to supply any incriminating evidence necessary to convict a taxpayer, or for failing to help the Internal Revenue Service prove its case against one, is up to one year's imprisonment and a \$10,000 fine. Both federal and criminal law apply to tax crimes, including false statements (including *unsworn* false statements to the IRS), conspiracy, bribery, and forgery. The Internal Revenue Service can even indict a person for remaining silent and not presenting incriminating evidence against himself (a blatant and deliberate abrogation of both the letter and intent of the 4th Amendment). The normal period in which law enforcement officers can prosecute for a crime is 3 - 6 years. However, the Internal Revenue Service can get extensions and circumvent the statute of limitations by 10 years or more.

Tax laws are so deliberately complex that even most tax attorneys do not fully understand them. In addition, tax rulings and interpretations change almost daily. The tax agencies of the United States, Australia, and other countries have been known to treat the same situation in a variety of ways, without having to have a law changed.

Money is easily invested without the IRS finding out about it. Examples include:

- 1) T-bills can be bought, bearer style, with no way for the IRS or law enforcement to link them to the owner.
 - 2) Bank certificates of deposit of \$100,000 or more which in one year or less are not

reported to the IRS. They are in bearer form and no records are kept of buyers or sellers. They are sold by stock brokers or banks. They pay high interest and are very liquid.

- 3) Two-to-ten year Treasury Notes in the amount of \$5,000 or more are available from stock brokers, banks, or direct from the U.S. Treasury, either by mail or in person. If less than \$10,000 is bought at one time, a Form 4789 does not have to be filled out. A U.S. buyer has to give his Social Security number when purchasing, but this will not stop an "undergrounder." He simply gives a false Social Security number. If notes are kept in trust by bank or broker, the holding is not reported to the IRS. Thus the launderer has ultimate possession and no reports are made.
- 4) Commercial paper (\$55,000 and up, for 30 days to 9 months)—promissory notes from large corporations—are issued in numbered or bearer form. This type of investment is bought through brokerage houses and in extensively used by people who want to launder money or evade tax.
- 5) Accounts with stock brokerages are used to launder money in the following ways: stocks that do not pay dividends are bought to avoid dividend-reporting regulations; the buyer pledges his securities to the broker for loans, and checks are issued only in the broker's name. All business is done by post or telephone.
- 6) Bank accounts (both savings and checking) are extensively used to legitimize money. The launderers must use the system carefully, as follows: They do not give Social Security numbers when they open accounts. They are placed on a list which the IRS gets only if they ask for it. They write only checks for less than \$5,000, so no reports are made of transactions. Cash withdrawals or deposits are made in amounts of less than \$10,000 at a time; this circumvents the cash-reporting rule.
 - 7) Use an alias.
- 8) Savings and checking accounts are opened in many cities by post, so the depositor never goes near the state or city of the bank. This makes IRS checking almost impossible. There are so many banks that a launderer can have hundreds of bank accounts and launder hundreds of millions of dollars without the IRS or other financial investigators learning of it.

This manual is divided into two parts. Part I is a Federal Bureau of Investigation Training Division handbook from the Financial Crimes Training Unit, entitled; *Guide to Sources of Information*. Chapter 1 is an outline of types of information financial investigators seek, followed by a number, or numbers. The number directs the investigator to sources listed in Chapter 2. Chapters 3 through 6 provide a brief description of some of these sources. This is, admittedly, a clumsy way to organize information, but Part I is a federal handbook, not a literary work.

The *Guide to Sources of Information* does not purport to be a complete source reference. It merely indicates where information can be found and does not imply that information

will be automatically given to the investigator. In many instances, due to state and federal privacy laws (e.g., The Privacy Act of 1974, Title 5, United States Code (U.S.C.), s 552a; the Right to Financial Privacy Act of 1978, Title 12, U.S.C., s 3401, et. seq.; S 1681), collection or maintenance of certain types of information can only be accomplished through written consent by the subject, subpoena, or other legal process.

Part II of this manual details the principles, methodology and techniques of money laundering. By comparing the investigative techniques outlined in Part I, against the known techniques of money laundering outlined in Part II, resistance organizations will be able to devise new money laundering techniques to evade known investigative parameters.

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Part I

How Money is Investigated

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Chapter 1

Types of Information Sought by Financial Investigators

| Type of Information | | Refer to: |
|---------------------|-----------------------------|--|
| 1. | Full Name | Chapter 2 1,2,4,5,6,10,11,16,17, 24,31,34,35,36,56 |
| 2. | Address | 1,2,4,5,6,10,11,16,17, 24,31,34,35,36,56,62 |
| 3. | Date of Birth | 2,3,8,13,24,34,35 |
| 4. | Description | 2,3,13,56 |
| 5. | Photograph | 2,3,13,22,62 |
| 6. <u>Type</u> | Occupation e of Information | 6,13,31,34,35,37,55,62 Refer to: |

| Typ | be of Information | Refer to: |
|-----|---|----------------|
| 7. | Marital Status | 12,23,34,55,56 |
| 8. | Prior addresses of a subject; names of persons previously living at the same address | 35,36,62 |
| 9. | Addresses, present and former, whether renting or buying; credit references; personal and business associates; names of relatives, locations of banks and financial companies | 34 |
| 10. | Telephone numbers and addresses; how long has the suspect had service; record of long distance phone calls; number of extensions in residence | 5 |
| 11. | Sources of income; expenditures; personal and business references; net worth of subject; handwriting exemplars | 31 |
| 12. | Information as to credit charges which have been made; what hotels are being used; where has your suspect been buying gasoline; employment and credit references | 15 |
| 13. | Registered owners of vehicles; legal owners of vehicles; description of vehicles; previous owners of vehicles; operators' license numbers, signatures; | |

| Type of Information | | Refer to: |
|---------------------|--|-----------|
| | photographs; thumbprints; abstracts of traffic citations | 56 |
| 14. | Application for bonds which give personal and business references; former addresses; former places of employment | 32 |
| 15. | | 33 |
| 16. | Recorded deeds, grants, mortgages; wills admitted to probate; notices of mechanics' liens; powers of attorney | 61 |
| 17. | Record of registration for securities offered for public sale; record of individuals and firms who have violated State and Federal regulations in securities traffic | 50 |
| 18. | Information concerning reputation of a business; back issues of city directories | 51,52,62 |
| 19. | Businesses' worth, associates, family, holdings and ratings | 34,55 |
| 20. | Information on persons involved in a medical or dental practice, pharmacists, barbers, funeral directors | 47 |

| Type of Information | Refer to: |
|---|-----------|
| 21. Names of post office box holders; return addresses on mail received at post office; mail covers | 4 |
| 22. To find a forwarding address | 4,38 |
| 23. Marriage license applications; addresses, dates of birth; signatures | 12 |
| 24. Names of the bride and groom; maiden name of bride; ages | 23 |
| 25. Information on divorces, i.e., place and date of marriage; date of separation; ages of children; community property; signatures; income; places of employment | 9,62 |
| 26. Information on parents of a child, i.e., occupations, ages, mother's maiden name, name of physician | 20,24 |
| 27. Disposition of moneys from an estate; value of estate; inventory of all assets of deceased | 30 |
| 28. Name and description of the deceased; property found on deceased and its distribution; cause of death | 25,29,30 |
| 29. Where death occurred; birth place; how long deceased lived in the County, | |

| Type of Information | | Refer to: |
|---------------------|---|-----------|
| | State, or United States; names of relatives; whether or not deceased was a veteran | 25,62 |
| 30. | Civil suits—changes of name; liens; description of property involved; name of court reporter, if any, who recorded to testimony | 10 |
| 31. | Political party; physical disabilities which would prevent marking a ballot; name of spouse; when and where married; last | |
| | place of registration to vote | 6,62 |
| 32. | Ship, Boat and Yacht registrations | 41.42 |
| 33. | Names and addresses of owners of ships, boats or yachts | 41,42,59 |
| 34. | Ownership of aircraft | 60,65 |
| 35. | Background on horse owners, jockeys, trainers, and people employed at race tracks | 7,62,66 |
| 36. | Case histories of persons on welfare, (usually good background information) | 21 |
| 37. | Student records, past and present, teachers' records, past and present | 22 |

| Тур | e of Information | Refer to: |
|-----|--|-----------|
| 38. | List of all county employees; occupations and rate of pay; records of all financial business for the county | 26 |
| 39. | Presidents and Secretaries of all County] Medical Associations, names of hospitals and sanitariums, number of rooms beds; doctors' names by street and city; doctors' year of birth, medical school and year of graduation, office address | 39 |
| 40. | Bar owners' fingerprints, marital status, home addresses, employees, associates | 48,68 |
| 41. | Information relative to Articles of Incorporation, giving businesses, associations, records of election returns; descriptions of seals used by various state officers; papers filed by candidates for election to State offices | 43 |
| 42. | Names of associates of a person involved in organized crime and which law enforcement agencies have information | 27,62 |
| 43. | Transcripts of preliminary hearings; probation officer's reports; subpoenas issued in the case; names of attorneys concerned | 11 |

| Typ | <u>e of Information</u> | Refer to: |
|-----|--|-----------|
| 44. | Parole reports; inmate contacts; visitors; correspondence; work and training assignments | 53 |
| 45. | Copies of telegrams and money order information; possibly handwriting exemplars | 37 |
| 46. | Record of all warrants drawn on the State Treasury; accounts of all persons indebted to the State | 44 |
| 47. | Legal descriptions of property; amount of taxes paid on real and personal property; former owners of property | 17 |
| 48. | Amount of cost of construction; blueprints of construction; information regarding location of plumbing and wiring | 19 |
| 49. | Dimensions of property and taxable income of real property, and what improvements, if any, on the property | 16 |
| 50. | Maps of streets; locations of drains; location of utility conduits; rights of way; old names of streets | 18 |
| 51. | Maps having elevations; base lines; | |

| Тур | e of Information | Refer to: |
|-----|--|----------------|
| | landmarks; important sites | 28 |
| 52. | Sources of information in foreign countries | 57,58,75 |
| 53. | Information as to anticipated travel of a person in a foreign country and vital statistics | 13,62 |
| 54. | Addresses of aliens | 14,49 |
| 55. | Alien information; date of entry; manner of arrival; addresses; occupation; age; physical description; marital status; children; signature; photograph | 14,49 |
| 56. | A guide to newspapers and periodicals printed in the U.S. and its possessions; thumbnail description of every city, including population, country, and location with respect to the nearest large city | 40 |
| 57. | Information on cattle and dairies | 45 |
| 58. | Mining information, petroleum and gasoline, fish and game | 46 |
| 59. | Records of individuals and firms who have violated State and Federal regulations in commodities traffic | 50,54,63,64,67 |

| Type of Information | | Refer to: |
|---------------------|--|-----------|
| 60. | Summary of State Laws and Regulations relating to distilled spirits | 68 |
| 61. | Regulatory commissions in United States concerning public utilities | 69 |
| 62. | Reports which describe duties and functions of county government offices | 70 |
| 63. | Record of individuals and agencies in State government | 71 |
| 64. | Record of individuals and agencies in Federal government | 72 |
| 65. | Record of insurance risks, agents, claimants and medical examiners | 73 |
| 66. | Record of scientific project in progress or being planned as well as scientists involved | 74 |
| 67. | Companies and individuals doing business in foreign countries | 75 |
| 68. | Companies making investments in less developed countries | 76 |
| 69. | Credit information on prospective | 77 |

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Chapter 2

Sources of Information Sought by Financial Investigators

- 1. Telephone directories
- 2. State, Department of Justice, Bureau of Identification
- 3. FBI
- 4. Post Office
- 5. Telephone company
- 6. Registrar of Voters
- 7. State Horse Racing Board
- 8. County Clerk's Office—Vital Statistics
- 9. County Clerk's Office—Divorce Records

- 9. County Clerk's Office—Divorce Records
- 10. County Clerk's Office—Civil Files
- 11. County Clerk's Office—Criminal Files
- 12. County Clerk's Office—Marriage License Applications
- 13. State Department—Passports Division
- 14. County Department of Naturalization
- 15. Credit card companies
- 16. County Assessor's Office—Title and Abstract Company
- 17. County Tax Collector's Office—Title and Abstract Company
- 18. Highway Department
- 19. Building Department
- 20. Health Department
- 21. Welfare Department
- 22. School Department
- 23. County Recorder's Office—Marriage License Section
- 24. County Recorder's Office—Birth Certificate Section

- 25. County Recorder's Office—Death Certificate Section
- 26. County Auditor's Office
- 27. Law Enforcement Intelligence Unit (LEIU) (If your department is a member)
- 28. County Surveyor's Office
- 29. County Coroner's Office
- 30. Public Administrator's Office
- 31. Banks and finance companies
- 32. Bonding companies
- 33. Stock brokers
- 34. Credit reporting agencies
- 35. Gas and electric companies
- 36. Water companies
- 37. Telegraph companies
- 38. Moving companies
- 39. American Medical Directory
- 40. Directory of Newspapers and Periodicals' N.W. Ayer & Sons, Philadelphia

- 41. Lloyds Register of Shipping
- 42. Lloyds Register of Yachts
- 43. Secretary of State, Corporate Division
- 44. State Controller
- 45. State Department of Agriculture
- 46. Department of Natural Resources
- 47. Securities and Exchange Commission
- 48. Alcohol Beverage Control
- 49. Federal Immigration and Naturalization Service
- 50. Securities and Exchange Commission
- 51. Better Business Bureau
- 52. Chamber of Commerce
- 53. Department of corrections
- 54. American Insurance Company
- 55. Dun and Bradstreet
- 56. Department of Motor Vehicles

- 57. Treasury Department, enforcement agencies
- 58. INTERPOL
- 59. Harbor Patrol
- 60. Airport Security
- 61. County Recorder's Office
- 62. Newspaper Library or Newspaper "Morgue"
- 63. Insurance Crime Prevention Institute
- 64. Hooper—Holmes Bureau, Inc.
- 65. Federal Aviation Administration
- 66. Thoroughbred Racing Protection Bureau, New York City
- 67. Commodities Futures Trading Corporation, Washington D.C.
- 68. Distilled Spirits Institute, New York City
- 69. Federal Power Commission, Washington D.C.
- 70. National Association of Counties, Washington D.C.
- 71. The National Directory of State Agencies
- 72. U.S. Civil Service Commission, Washington D.C.
- 73. American Service Bureau of the American Life Convention, Chicago, IL

- 74. The Smithsonian Institute
- 75. U.S. Department of Commerce, Washington, D.C.
- 76. Agency for International Development, Washington, D.C.
- 77. National Association of Credit Management, New York, New York

Chapter 3

Descriptions of Sources of Information Sought by Financial Crimes Investigators

Federal Regulation of Banking

The Federal supervision of banks and savings and loan associations in the United States is shared by five government organizations.

The Office of the Comptroller of the Currency, U.S. Treasury Department, has charter and supervisory authority with respect to the national banks of the United States.

The Board of Governors of the Federal Reserve System has supervisory authority over all member banks of the Federal Reserve System, but actually confines its bank examinations to State member banks of the Federal Reserve System.

The Federal Deposit Insurance Corporation insures the deposits of Federal Reserve member banks and non-member banks that wish to be insured by FDIC. These non-member banks insured by FDIC are examined and supervised by the FDIC.

The Federal Home Loan Board insures and supervises Federal Savings and Loan Associations.

The Farm Credit Administration supervises the activities of Federal Land Banks, Federal Intermediate Credit Banks, and the Banks for Cooperatives.

State Governments

There are many sources of information in the files of a State government—the problem is finding them. The first step in any investigative field office is to obtain the telephone directories of State offices, as most directories list the addresses of the various departments, divisions, bureaus, branches, units and sections. The second step is to obtain a copy of the State Blue Book, or Manual, which not only gives a short summary of the functions of the various departments but in many instances gives excellent biographic write-ups (sic) of the state officials. Many of these publications include photographs of their staffs, cabinet members, department heads, and other officials. Practically all of the large libraries keep copies of these publications.

The following is a list of offices found in most states and the information available to them:

Air Pollution:

Records of inspections for possible air pollution standard violations, which would include any complaints, reports detailing the findings of investigators and any notices of violations. Test samples would be described, and correspondence between the company and the agency might be attached.

Banking:

Semi-annual and quarterly reports of conditions, filed by state-chartered banks, which include financial statements; notices of corporate changes, such as new branches and relocation's; the offices' annual reports to the governor which give aggregate data about the number of institutions in the state and their total assets; deposit data for individual branches; fiduciary statements; in some states, licensing information about bank officers.

Commerce and Economic Development:

Directories of manufacturers in the state, listed by product and Standard Industrial Classification code; location of company headquarters and plants; business and economic trends in the state. (These departments are service-oriented, and much of their material is aimed at helping new businesses and encouraging companies to locate in their states. They are good sources of market data).

Consumer Protection:

Records of complaints about companies or consumer products; publications of general interest to consumers. Records of investigations or prosecution of companies most likely will not be available until the cases are closed.

Corporate:

Articles of incorporation, which show: place of business; date of incorporation; nature of business; names and addresses of directors, officers and incorporators; names and addresses of agents; capitalization. Other documents include: amendments to the articles; notices of consolidation; notices of mergers; changes of names. Most states also require annual reports to be filed, and in several states the reports must contain financial information.

Environment:

Records about water supply and quality; air quality; food service and lodging establishment sanitary conditions; sanitation. Records of inspections and investigations of certain companies and buildings would be available.

Food and Drugs:

Documents about food production, processing, packing, labeling and retailing. Some state offices also regulate pharmaceuticals and cosmetics. Information is held concerning: contents; records of investigations and inspections of companies and buildings; some permit applications and product registration forms. (Trade secrets and records of cases currently being prosecuted generally are confidential).

Franchise:

Disclosure information filed by any franchiser who wishes to sell a franchise within that state.

Insurance:

Financial reports by insurance companies, which include balance sheets and income statements; sample policies; policies and rate classifications submitted by companies for approval; legal documents, such as change of name records and articles of incorporation; agent licensing records; records of investigations of companies or agents; in some states, lists of agents or information about how to locate agents of a company.

Labor and Industrial Relations:

Labor market statistics and trends; employment and unemployment levels by occupation and by industry; records of investigations into possible violations of wage and occupational safety laws; employment agency licensing records; decisions on arbitration between municipalities and public employee unions; records of lost work days due to illness and

accidents; copies of labor laws.

In some states, all these records are kept by one office. Other states have separate departments for the various functions. The offices listed will refer you, if they cannot help you themselves.

Occupational and Professional Licensing:

Records showing the education and other qualifications (sometimes including financial strength) of members of professions and certain business persons, such as: doctors, dentists, pharmacists, real estate brokers, insurance agents and contractors. Also available are records of investigations stemming from complaints about licensed businesses or professionals.

In some states, licensing is handled by independent boards. The State government telephone operator should be able to give you telephone numbers of the boards.

Occupational Safety and Health:

Records of inspections of workplaces for possible safety of health threats to employees, such as: noise, dangerous machinery, fire hazards and health hazards, including chemical and carcinogens. (These are not available to the public in all states). There are also statistics about the numbers of injuries, accidents and illness related to jobs and the penalties assessed for violations of health and safety laws.

Purchasing:

Contracts between state governments and companies; bids; specifications; descriptions of commodities or services needed; applications to become a contractor with the state; some states also have files about contractors, which show financial strength, type and size of affirmative action program and other data.

Securities:

Prospectuses of stock offerings made within the state only. The prospectuses describe the stock offered and stockholder's rights, including dividends or interest to be paid.

Uniform Commercial Code:

Documents showing whether a corporation has borrowed against its assets, giving the names and addresses of the debtor and the security party, a description of property used as collateral and the loan's maturity date. A separate document is filed for each debt. Charges for obtaining copies usually include search fees.

Water Pollution:

Permits to discharge pollutants into bodies of water; monitoring reports about water quality; correspondence between the agency and the company, including transcripts of meetings and telephone discussions; records of inspections; descriptions of polluting plants and the amount and type of effluent discharged; analysis of water samples; records of complaints, violations and enforcement action; descriptions of operations and maintenance. (These offices oversee private pollution sources and municipal sewage treatment plants).

County Government

The National Association of Counties (NAC), Washington D.C., maintains a staff in Washington to assist counties through numerous technical reports, study reports, conferences and advisory bulletins. NAC has attempted to bring as much uniformity as possible into county government. One area in which NAC has been successful is that most counties now prepare an annual report which describes the duties and functions of each of the county offices and often has pictures of the county officials. For an investigator, the annual report is a good starting point in ascertaining the functions of the various departments. Nearly all counties have an office of public information, and personnel of this office can supplement the data of the annual report. The employees of the office of public information issue the county press releases and are acquainted with the newspapermen in the county.

In some counties the office of public information and the office of economic development are in the same office. Office of economic development personnel are an excellent source of reference information on businessmen in a county, especially the real estate developers.

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Chapter 4

Sources of Information

Motor Vehicle Records

State government files are repositories of practically all motor vehicle licensing data. The National Driver Registration Service of the Bureau of Public Roads, U.S. Department of Commerce, keeps a record of individuals whose driver's license or permit has been revoked because of driving while intoxicated or conviction of a violation of a highway safety code involving loss of life. The American Association of Motor Vehicle Administrators, Inc., and the American Trucking Associations, Inc., have published booklets which assist investigators in checking certain motor vehicle records. The National Automobile Dealers Association puts out a book listing the licensing requirements of motor vehicle dealers, salesmen, and people in allied fields. The Washington Headquarters of American Automobile Association issues International Driving Permits for Americans who will be driving automobiles while abroad. The National Auto Theft Bureau has information on automobile thieves, wrecking yards and junk dealers.

Newspapers and Magazines

All big city newspapers have a reference library (morgue) containing envelopes of clippings on persons who have been in the news. Newspapers also have reproduction facilities close to the morgue, and for a reasonable fee, copies can be made of the clippings that are difficult to synopsize. In smaller towns, the morgue files are not usually well maintained but the chances of the city editor knowing your subject are greater than in a big city.

A trip to the newspaper's morgue often produces biographical and other information on a

great many persons of consequence in the community. Whether or not the subject under investigation would be there would depend largely on how unassuming of self-effacing a role he has lived. If he has been a complete blank born of blanks, he might not appear; but if his parents were known—for either good or bad reasons—if he ever won school honors of any sort, held office in any local organization or business, had a tendency toward criminal activity or any police record, he would probably be included in morgue files.

The morgue is often the source of a photograph of a subject or a lead on other places or people where additional information can be obtained.

The advertising department of a newspaper or magazine can also be a source of information on businessmen in town, and people in the public relations and advertising departments of the publications in which their clients buy space. An investigator can learn what a paper thinks of the credit record of a particular person or firm because if it is poor they would require cash with his advertising copy. If it is good, he will be allowed to ruin an account. The paper or magazine's advertising department might be inclined to be protective—particularly if the subject under investigation was a good account—but allowing for this, one might still be able to find out something about the person's habits and reputations.

In the editorial department, the city editor would know about the subject if the subject had been of news value in some way recently. He probably would know public relations personnel since they frequently visit papers to become acquainted and drop off releases. If the city editor operates his reporters on regularly assigned beats, he should be able to put the investigator in touch with the reporter who handles the professional societies or one who covers activities of the business or industry in which a subject is engaged.

A great many papers have local columnists whose output is devoted to human interest discussion of day-to-day events in the community, with the accent on the names of local residents. Such men, over the years, accumulate a surprisingly vast number of acquaintances and are frequently able to recollect helpful information concerning individuals. The police and city hall reporters in any city accumulate considerable information—much of which never appears in print—on individuals in the community, particularly the seamier side of persons' lives. This type of information has to be carefully weighed but could serve as lead information which an investigator could develop in other aspects of the investigation such as at the police headquarters or the district attorney's office.

Investigators are frequently required to locate a back copy of a newspaper or magazine. The numerous library indexes can be invaluable in this type of inquiry. In addition, there are back-issue periodical and newspaper vendors in all large cities. In the newspaper field, a personnel security investigator looking for a back copy of a particular newspaper can visit his local library.

Libraries and librarians can be of immense help to the investigator. A working knowledge of the reference section of a large library is essential because many times reference sources can provide the desired information.

Educational Records

Investigators check records at educational institutions ranging from the elementary school to the university. They also review files at city and county boards of education, alumni groups, fraternities and sources for special fields of endeavor.

Elementary and junior high school records are a secondary source of birth information and are occasionally of help in securing address or reference information. High school records and interviews give a fairly accurate prognosis of a student's future behavior. College and university records contain numerous items covering a student's ability, personality, character, habits and integrity. Alumni files in some instances give a good account of what a subject has done since graduation. Fraternity records and interviews help in the evaluation of the ability of a subject to work better with a group or by himself. City and county board of education files contain complete information of professional and nonprofessional employees of a school system and the accreditation records of professionals in the private schools within a city or a county. The Education Council for Foreign Medical Graduates has complete data about graduates of foreign medical schools who wish to come to the United States and practice their profession. The Retired Professors Registry keeps a good file on retired professors who may be used in a consultative capacity or whose comments may be needed about a subject. The National Academy of Sciences National Research Council maintains a list of doctorate degrees awarded each year by American colleges and universities.

Insurance Records

In America almost anything of value is insurable—your life, health, boat, car, house, furs, or jewelry, income crops, store, integrity, and property (business or personal).

In the event of an inquiry regarding a specialized type of insurance such as oil insurance, consult the Encyclopedia of Full Associations, Gale Research Co., Detroit, Michigan, or visit the library of the <u>Insurance Society</u> in the city where you are assigned.

Association of Casualty and Surety Companies Records (also known as American Insurance Association) is a source of information concerning payments to doctors and attorneys who handle insurance claims.

Vital Statistics Data

Investigators of all agencies and documents are called on time and again to check records of birth, marriage, divorce, death, and occasionally a fetal death or an adoption. These records are referred to as vital statistics and each element of government, municipal, county, state, and federal, plays a part in the registration, recording, and safeguarding of these vital statistics.

Credit Records

In today's world, credit touches on almost every phase of a person's life. The investigator is normally concerned with private credit information rather than public credit information,

which deals with federal, state, and local government financing. Private credit is divided most commonly into investment credit, bank credit, commercial credit, and consumer credit. Investment credit usually deals with longer term obligations such as real estate and corporate financing. Bank credit originates in the banking system, and commercial credit usually encompasses credit arrangements among business firms. Consumer credit is used by individuals in the purchase of goods for personal or family use. Retail credit, which is the offering of credit to consumers by retail service businesses, is an important segment of consumer credit.

The types of consumer credit extended include automobile paper, other consumer goods paper, repair and modernization loans, personal loans, single payment loans, charge accounts, and service credit. The financial institutions involved in consumer credit include commercial banks, sales finance companies, credit unions, and personal finance companies. Retail outlets which extend personal credit include department stores, furniture stores, household appliance stores, and automobile deals.

The Fair Credit Reporting Act of 1971 restricts the availability of information from credit reporting agencies to governmental investigative agencies. The act provides that credit reporting agencies may furnish <u>only</u> identifying information that is limited to a consumer's name, address, former addresses, places of employment and former places of employment.

Better Business Bureaus

The Better Business Bureau network was started in 1912. There are members of the Association of Better Business Bureaus in the U.S., Canada, Latin America, and Israel. They work under the guidance of the National Better Business Bureau, Inc., New York, New York, as do the Chamber of Commerce and Merchants Associations members throughout the United States.

The members of the Association of Better Business Bureaus receives complaints regarding such activities as solicitations of funds, award peddlers, franchise sellers, promoters, mortgage brokers, unwanted COD merchandise, homework schemes, magazine salesmen, beauty schemes, food freezer plans, food fads, anti-smoking products, referral schemes, and investments. The National Better Business Bureau, New York, New York, maintains extensive files on all types of "con men" and the NBBB cooperates fully with officials of the Post Office Department, Federal Trade Commission, FBI, and other government agencies.

If a federal investigator knows or suspects that the subject of an inquiry was associated with a short-lived venture, promotion of a new product or new type of investment, or a "getrich-quick" plan, he should check the local Better Business Bureau. If the activity might have been conducted in other areas, he should check the National Better Business Bureau.

Associations and Their Files

In the all too many cases where the field investigator is trying to locate someone who knows the subject of inquiry, to obtain some additional biographic information, or is looking for a photograph, he must never forget the American habit of belonging to some sort of

association.

One publication is the Encyclopedia of Associations (Gale Research Co., Detroit Michigan, Volumes 1-3). What makes this publication so valuable is the way the information is indexed. If one knows the name of the executive director or executive secretary and is unsure of the name of the association, he can find the cross reference in the executive index. If an investigator wants to know what types of associations are in a given geographical area, he may consult the geographic index.

National Association of Securities Dealers

There are many scattered sources of information on people who have been or are employed by companies dealing in stocks and bonds: the New York Stock Exchange, the American Stock Exchange, the Securities and Exchange Commission, the reporting agencies that are specialists in this field, and the National Association of Securities Dealers.

The National Association of Securities Dealers (NASD) came into being as a result of special legislation passed by Congress in 1938 to regulate the over-the-counter securities market. Whereas the Securities and Exchange Act of 1934 regulates stock exchanges, the 1938 law, commonly called the Maloney Amendment, provides for the establishment of organizations which would be created and administered by the brokers and dealers subject to the legislation. Thus the over-the-counter securities business is self-regulated.

NASD has a code of fair practice standards not only for the member firms but also for employees of member firms, salesmen, traders, etc. These persons are generally known as registered representatives. They are subject to the same obligations and duties as are members and are equally bound under the disciplinary powers of the organization. Before becoming registered representatives, they must meet experience requirements and pass an examination. This examination determines whether applicants for registration has a basic knowledge of securities and governmental and association rules which regulate the over-the-counter securities market

Contact can be made directly with a regional office, SEC, who can be of assistance in matters dealing with any company which is a publicly held corporation.

Elected Public Officials

To investigate contributions (local) of \$25.00 or more, either directly or through a political committee, go to your local Bureau of Elections or Voter Registration Bureau and ask to see the files for the last election or previous elections.

To determine contributions (national) of \$100.00 or more for Senators, write: Office of Public Records, ST-2, Capitol Building, Washington, DC 20510. For Representatives, write: Office of Records and Registration, U.S. House of Representatives, Longworth Building, Washington, DC 20525. The same information is available with your Secretary of State in the State Capitol.

It is often necessary to determine what interests these contributors represent. While federal

law requires the contributor's address and occupation, the above records will often give only names and home addresses. The City Directory will usually tell you what the contributor does for a living (your local library will have one).

Poor's Registry of Executives and Directors, Standards and Poor's, New York, will tell you if the contributor is "Big Business" and list their corporate involvement. (Lawyers and occasionally their clients are listed in Martindale Hubbell's Law Directory—located in your library.)

Newspaper clipping files in the library or your local newspaper will often give more information on the contributor. Ask for any clippings the newspaper has about the contributor.

To investigate contributors who are also lobbyists, the Congressional Directory list lobbyists four times a year and tells who they lobby for. Your local library will have it. Check for names of contributors—especially any with Washington D.C. area addresses or any out-of-town attorneys.

Legislators frequently link legislation to special interests. Bills that your elected officials have introduced, voted for, or made speeches about can be found in the Congressional Quarterly, in the Congressional Record Index, or by writing to their office. (Ask who the bills benefit and compare it with the contributor interests.)

To find out about the vested interests of elected officials, particularly regarding local broadcast interests, go to your local T.V. and radio stations. Ask to see the public ownership files. Look for the names of elected officials. Property tax records of your county will list all property owned by your elected officials. Mortgage records will tell you how much money is coming in from past property sales and how much money is owed on property bought by them. Delinquent tax records will tell you about any delinquent taxes on property owned by your officials.

To find out what corporations your elected officials are involved in, the U.S. House of Representatives Committee on Standards of Official Conduct, Room 2360, Rayburn Building, lists all income of more than \$1,000.00. Corporate involvement (stocks, bonds, etc.) will often show up on the Statement of Official Financial Interests and Associations.

The counterpart in the U.S. Senate is the Office of Public Records, ST-2, Capitol Building, Washington, D.C. All speaking fees of \$300.00 or more per year are listed there.

To determine if elected officials are involved in tax-exempt foundations, use the City Directory, and Newspaper Clipping Files. Look in the index of the Foundation Directory located in your library. Turn to the appropriate pages listed after your official's name.

General information on elected officials can be found in Congressional Profiles by the Ralph Nader Congress Project. This can be purchased at bookstores or from Grossman Publisher, Washington, D.C. The Almanac of American Politics gives information on district, key votes, and biographical sketches. It can be found in your local library or purchased from Gambit, Inc., Boston, Massachusetts. Who's Who in American Politics, distributed by R.R. Bowker Co., New York, New York, gives more extensive biographical information on

elected officials. It can be found in your local library.

To determine if your elected official has ever been arrested or sued, or if they have ever had anyone else arrested or sued, go to the Clerks of the various courts in your county or city courthouse. Look in both criminal and civil indexes for the name of your elected officials (last name is listed first). Since there is usually a separate index for each year, you will want to go through indexes for the past several years.

Review of Land Records

Of all the public records available to the investigator, land records at the county courthouse contain more stories than any other kind of document. Here are two examples:

- 1. While checking a rumor that a valuable piece of farmland was being bought secretly by foreign investors, an investigator noticed numerous farmland transactions in the same names. Those names turned out not to be foreign investors, but rather some of the major farm implement dealers in the state. By searching further in numerous other county courthouses, the investigator pieced together the land holdings of two of these dealers. The holdings had made them perhaps the largest holders of prime agricultural land in the state. The holdings had also made each of the two men multimillionaires. And if that were not story enough, it turned out that one of the dealers was in prison for bank fraud. It was easy to show the ties between the bank fraud and the land dealings.
- 2. An investigator curious about the humble lifestyle of a public official heard that the official owned a summer home in another state. The investigator went to the other state's county where the home was located, and determined that the cottage's title was listed under the name of a corporation. Further investigation showed that this corporation was a secret land trust aimed at concealing the true ownership of the cottage. The trust was run by a chum of the official, an accountant who had received hundreds of thousands of dollars in business from the city where the public official lived.

If these examples jiggle your imagination, read on. What follows is a guide on how to use some of the most valuable land records.

The procedure differs from state to state, and sometimes from county to county within a state. What follows is based on how things work in one state. Most of the knowledge, however, is transferable to any location.

To focus on a person, usually start in the county recorder's office. If you know the name of a landowner, and want to determine what he has bought and sold, begin with the index to land deeds (if it is rural land that interests you) or the index to town lots (if it is urban land that interests you).

The indexes usually list transactions by seller (called the "grantor") and by the purchaser (called the "grantee").

So, if you are interested in Joe Jones, turn to the "J" section of the index. If it is purchases by Jones you care about, check the names under "grantees." If it is sales you care about, check the names under "grantors."

When you find Jones' transaction, there will be a book number and page number opposite it. Those numbers will tell you where to look in another book (or more likely, on a microfilm card) for the actual legal documents used in the transaction.

The deed will tell you the sales price of the property. The price might be listed exactly; if not, at the very least the deed should contain tax stamps. Translating tax stamps into dollars is an easy process. For example, in Iowa, if the tax stamps on a deed amount to \$69.30, you know the transaction amounted to \$63,001 - \$63,500. The recorder should have a tax stamp translator handy for you to use. The deed also will show the legal description of the land. You will need that later if you want to learn more about the piece of property.

The deed also can help determine how many acres are involved in the transaction. This is especially useful for rural land. One section of land is 640 acres. Thus, a half-section is 320 acres, a quarter section is 160 acres, and so on. If the deed is for the southwest half of the southwest quarter of section 34, Township 88, Range 14, you can calculate that 80 acres are involved. Sometimes land is bought on contract, rather than by deed. Contracts are listed in a different index than deeds, but otherwise the procedure is the same.

Perhaps the most difficult problem in focusing on a person's holdings is determining how much land the person has bought or sold. If he has something to hide, his transaction might not be in the name of Jones. Instead, he may have set up a partnership such as ABC Farms Ltd., to use in his buying or selling. Or the transactions might be in the name of his wife's mother.

What must be done is to learn as much as possible about Jones, his businesses, his associates, his friends and relatives. That way you will recognize other names in the recorder's office indexes, and be able to trace those other names back to Jones.

One place to check for sure is the county treasurer's office. Some treasurers have tax records for an individual grouped together, for mailing purposes. So if Jones owns land under the name ABC Farms Ltd., but has tax bills sent to his home or office, that piece of land might be grouped with the land Jones owns under his own name. Another place to check is the secretary of state's office. That is where Uniform Commercial Code documents are on file.

Whenever a person, such as Jones, borrows money and puts up security in return, the lender files a Uniform Commercial Code statement. If the land is used as security, it will be listed. Or if the crops are used a security, the land on which the crops are planted will be listed. All you need to known to get someone's Uniform Commercial Code records are his name and address. If you want to know how Jones financed his land buying, you can look not only at Uniform Commercial Code filings for clues, but also at the mortgage indexes back at the county recorder's office.

Most mortgage indexes, like deed indexes, are set up alphabetically, by "grantee" and "grantor." The index will also lead you to mortgage satisfactions, meaning the loan has been paid off. You will need to go from the index to the documents themselves, as you did with the deeds.

Now, suppose rather than focusing on a person, you want to focus on a particular piece of property. At the very least you will need the address. More often, you will need the legal description. One place to find the legal description is on the deed. Another place is on the abstract (a brief history of a piece of real estate from origin to present) which is often in the possession of the savings and loan or bank that holds the mortgage on the property.

In most counties, the assessor or someone else involved in property taxation can help you determine the simplest way to translate the address into the legal description. With the legal description, you can learn who owns the property (or at least who is paying the taxes on it), how much it is valued at by the county, how many times it had been bought and sold, and by whom.

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Chapter 5

Property Investigation

Step 1: Finding the Legal Owner

Start out with the address of the property and go to the assessing department in the city or town hall of the municipality where the property is located.

Look up the tax card or in the Real Estate Index book under the address. There you will find the name of the legal owner of the property. It may be an individual, or it may be some sort of company. This is the name of the current owner of the property—unless the property has been sold within the past year or so. The next section explains how to check if the property has been sold. The following one tells you how to go further if the owner is some sort of company.

While you are at the tax office you might want to note, for later use, the assessed valuation, taxes owed, address the bill is sent to, and other information on the tax card or on the assessor's books, and may want to find out if the owner has received a tax abatement in any year or if the property is tax exempt.

Step 2: Finding a New Owner

To find out whether the owner listed in the tax records has recently sold the property, go to the county registry of deeds. Look up the owner's name in the grantor index for the current year. If you find an entry under the owner's name in the grantor's index, you cannot be sure yet that the property was sold. You are looking for a deed for the particular property. The

entry or entries you find in the index might refer to entirely different pieces of property. Or they may be references not to a deed but to mortgages or other liens. Thus you have to check further.

Look in the right-hand column of each entry under the particular owner's name. The community and street name will be the first things listed in that column. Obviously, entries that refer to other cities and streets are not relevant. If there are many entries under the owner's name, go down the column, noting all the ones that refer to the city and street of your property. For each of these, see if "Mtg" also appears in that column. If so, the entry refers to a mortgage and not a deed, so skip it for now, perhaps making a note of it for later use.

If there are some entries that apparently do not refer to mortgages, then look in the column called "Grantee." If the name of a person or company appears in this column then you've probably located a deed, and the name listed under "Grantee" is the new owner. If instead there there's an abbreviation of the name of some legal document, then it's not a deed, and thus not relevant now.

Once you're fairly sure that an entry refers to a deed, note the numbers listed under the Book and Page columns. Go to the appropriate record book and look up the deed. The deed will include the exact address of the property, the names of the seller and buyer, and date of sale. Thus you can verify whether it actually is the specific property you are interested in, and you can be sure you have the name of the new legal owner. If you go through this procedure with the current year's grantor index and find nothing, then do the same thing using last year's grantor index.

If you find nothing in the main part of the registry of deeds, then try the land registration office of the registry. Again, start with the grantor index for the current year, looking for deeds under the owner's name. If you find a deed referred to, either give the clerk the Document number to get the deed, or look up the particular Registration Record Book and the page that is indicated in the index. There you'll find the Transfer Certificate of Title. It will contain the address and the basic information about buyer, seller, and date of sale.

If again, there is nothing, try last year's grantor index at the land registration office. If this produces nothing, then the owner listed in the tax records still owns the property. If you do find a new owner, then start step 2 again using this new owner. He may have sold it already to someone else.

Step 3: Finding the Individuals Who Own It

If the present legal owner of the property is just one or more individuals, whose names you now have, then your research on who owns it is now finished—unless you think this person is a straw. If, however, the legal owner is listed as some person *et al*, or and others, or is some company, or might be a straw, then you'll probably want to find out who the other individuals are, or who the individuals behind the company are.

If the owner is an individual et al.

If the legal owner is listed as the name of some individual followed by the words *et al*, it means that this person owns the property jointly with one or more others (*et us*, means "and wife.") You can find out who the others are by going to the registry of deeds and looking up the deed they received when they bought the property.

If, under Step 2 above, you found that the property was recently sold, you've already located this deed. If, however, you found that the owner listed in the tax records has not recently sold the property, then you probably haven't yet located the deed.

At the registry of deeds, look in the grantee index, for the current year, under the owner's name. Follow the same procedure as in Step 2: look in the right-hand column to verify the community and street; if they correspond to your property, note the book and page, and go look up the deed in the record books. If you don't find the deed listed in this year's grantee index, then look in last year's. Continue going back through the grantee index, year-by-year, until you locate the entry for the deed to the property. In the deed will be listed the names of the "others" referred to as *et al*.

If you don't find the deed in the main section of the registry of deeds, then go to the land registration office, and follow the same process with the grantee index there. Start with the current year and go back, year by year, until you locate the deed. Once you identify the property as registered land, all your research at the registry of deeds can be done at the land registration office, not at the main part of the registry.

If the owner is a corporation, trust, or limited partnership.

If the legal owner is a company of some sort, then the tax records or the deed—wherever you found the name of the current legal owner—will probably indicate whether it's a 1) corporation ("Inc." or "Corporation" will appear in its name); 2) trust ("Trust" appears in its name); 3) Limited Partnership (the words "A Limited Partnership" follow its name.)

If it's not one of these types of company, then go on to the very next section. If it is one of these, you need to look up the records at the Secretary of State's Office at the State House.

If the owner is a corporation (either a business corporation, or a non-business corporation, such as a church, a university, or a hospital), the corporation records will list the names and addresses of the officers and the members of the board of directors. If the owner is a trust, the trust records will list the names and addresses of the trustees, but will probably not list the beneficiaries. If a limited partnership, limited partnership records will list the names and addresses of the general partners and the limited partners. For all of these records you should check not only the original formation papers, but also amendments and annual reports, if any have been filed.

If the owner is a trust and the trust records at the State House do not list the beneficiaries, there is no simple way of identifying who they are. The only circumstances under which their names must be revealed is if they lease property to the state. Try contacting the office of the Superintendent of State Buildings at the State House to see if the trust leases property to the state and has filed the required documents.

If you find nothing at the office of the Superintendent of State Buildings, then try the various possibilities listed below under "If the owner might be a straw."

If the owner is an ordinary partnership or individually-owned business.

If a company's name does not reveal it to be a corporation, trust, or limited partnership, then it's probably an ordinary partnership or an individually-owned business. In these cases there aren't any records at the State House, but there are business certificates filed in the clerk's office at the city or town hall in the community where the owner's business is located. The hard part is finding the correct city or town. If you have checked the city where the property is located and not found the business certificate, you might locate the right city through one or more of the following sources:

- 1). look up the company in the phone book
- 2). check the tax records to see where the tax bill is sent
- 3). find out from tenants where they send rent to
- 4). if there is a management company, check where it is located
- 5). try nearby cities, especially large ones.

If the owner might be a straw.

Other possibilities for penetrating trusts and straws to find out the names of the people who really own the property include:

- 1). At the registry of deeds, look up the names of the trust, the trustees, or suspected straws in both the grantor and grantee indexes, going back in time from the current year until there are no more entries; note the books and pages of all the entries and look up these references in the record books; skim through all the records for names, see who signs records, who money is borrowed from, who property is bought from, who the notary is that certifies signatures; go through this same process at the land registration office.
- 2). Check marriage records, which are filed under the names of the individuals you've already identified, in order to get names of spouse and in-laws.
 - 3). Try to get inspection records which are filed under the address.
- 4). Inspect court case records, civil cases under the names of the trust or individuals, criminal cases under individuals.

- 5). If there is a management company, look up the corporation records (if it's a corporation) or business certificate (if not) to identify the people behind it, as they may actually have beneficial interest in the property.
 - 6). Try personal interviews with various people.

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Chapter 6

The Securities and Exchange Commission

The Securities and Exchange Commission (SEC) collects reams of financial and organizational papers from publicly owned companies and these documents are available to the public. They can be obtained through the mail, or SEC public conference rooms in Chicago, Los Angeles, New York, and Washington, D.C.. Here is a list of some of the documents on file with the SEC and what they contain.

Form 10-K

This is the annual report filed by companies selling stocks to the public. It includes the following information about organization and finance:

1) Organization: Description of business done by the company and its subsidiaries; number of persons employed; estimated number of competitors; location and brief descriptions of properties owned; oil and gas production, if any; diagram of parent and subsidiary companies; major lawsuits in progress; matters submitted to votes of security holders; names, ages, remuneration, relationships and experience of executive officers and directors. Changes and developments in areas such as: competition conditions; sources and availability of necessary raw materials; patents, trademarks, franchises and concessions; new products of lines of business; amount of spend and employees involved in research and development; bankruptcy or receivership proceedings; and any major disposition of assets; changes in methods of business; changes in securities or indebtedness.

2) Finance: Sales, revenues, sources and application of funds; revenue from different products or classes of products; importance of foreign sales; gross profit, net income or loss; per share earnings and dividends; principal security holders and the amounts held; balance sheets; total assets.

Form 10-Q

This is the quarterly report of companies trading stocks publicly, and their subsidiaries. Financial data required include: income statement, balance sheet and inventories; sources and application of funds; effects of any dispositions or purchases; earnings and dividends per share; any defaults or nonpayment of dividends; any increase or decrease in securities or indebtedness.

The report also must include a narrative analysis of operations covering: changes in revenues and expenses between that quarter and the previous quarter, and corresponding periods during the previous year (this could contain sales volume, prices, productivity and labor costs); non-routine legal proceedings; matters voted on by security holders.

Form 8-K

This form calls for information about important current developments. It is filed by the public companies. Documents filed describe any: change in control of the company, including who obtained control, the nature of the transaction and any loans or contracts that could result in future changes of control; major acquisitions; bankruptcy or receivership proceedings; balance sheets for any businesses bought or sold.

Form 8-A

Form 8-A is used to register securities. It tells the type of security (capital stock, bond, etc.) to be registered and the exchange on which it will be traded. For debt stocks, such as bonds and debentures, there must be a brief description of: interest, conversion provisions, maturity, redemption provisions, amortization and sinking fund provisions, and any liens. The filing also contains copies of the securities, contracts or other documents showing the rights of security holders and in some cases, annual reports and proxy statements.

Form 8-B

This form is used to register the securities of successor issuers (for example, a bank holding company which issues securities formerly issued by the bank itself). It shows the type of securities, name of the exchange and number of shares or amount of bonds. For capital stocks, it describes: dividend rights, voting rights, liquidation rights, pre-emptive rights, conversion rights, redemption provisions and liabilities.

For debt securities, it shows: interest, conversion rights, maturity, redemption provisions, amortization provisions, sinking fund provisions, retirement of any lien. In some cases, financial statements, balance sheets and proxy statements must be attached.

Form 6-K

Foreign companies selling stock in this country, which do not have to file Form 8-K, must file Form 6-K. It requires that they submit information they have made public abroad. Only information not previously furnished to the SEC, and information that is important to investors is required. If the information is available only in a foreign language, it does not have to be translated into English.

The documents show the financial condition of the company and its subsidiaries; changes in business; major acquisitions or dispositions of assets; changes in management or control; remuneration of directors and officers and any transactions with directors, officers or principal stockholders.

Schedule 13-D

Schedule 13-D must be filed by a person of company that acquires more than 5 per cent of the securities of a company which is listed on a stock exchange, or is worth more than \$1 million and has 500 or more shareholders. It requires a description of the securities and issuer; background information about the issuer, including directors, partners, parent or subsidiary companies; sources of funds for the purchase; purpose of the transaction (for example, the purchase was made as an investment or to obtain control of management): plans for the issuer, if management control is acquired; amount of shares owned; contracts with others concerning those shares.

Schedule 13-G

This must be filed when a person or a company acquires more than 5 per cent interest in firms such as a brokerage company (one which acts as an agent in stock transactions), bank, investment advisor or insurance company. It is a shortened version of Schedule 13-D, requiring less information if the interest was acquired in the normal course of business, and not in an effort to obtain control of management.

Schedule 14-D1

This describes tender offers made to companies trading on a stock exchange, or to those worth more than \$1 million with 500 or more stockholders. It is filed by the target company. It identifies: the securities; principals; past major dealings between the two companies or their directors; source and amount of funds required; purpose of the transactions; persons, such as

brokers, retained to help with the transaction; material financial information; documents such as the tender offer itself, loan agreements and contracts.

Schedule 14-D

This form must be filed by companies that are the subject of tender offers, if they make recommendations for or against the offer. It tells why the recommendation was made; describes the security and issuer; describes the background of the company; identifies persons retained as a result of the tender offer; gives information about any transactions with the other company during the previous 60 days.

Form N-5

This form is used to register small business management investment companies.

Management investment companies, such as mutual funds, purchase a variety of securities.

Investors then buy into the investment companies, and earn profits from the securities owned by the companies.

Form N-5 includes:

- 1) type and amount of securities being registered; maximum offering price per unit and proposed maximum aggregate offering price; a prospectus.
- 2) description of business being done, including: types of businesses to which loans are made and kinds of loans; major lawsuits in progress; any special tax status; diagram of controlling persons, giving names, addresses, affiliations and remuneration of directors, executive officers and advisory board members; identification of investment advisers.
- 3) explanation of policies on such matters as: borrowing and lending; underwriting; concentrating investments in particular industries; sale of real estate and commodities; types and concentration of investments.
- 4) financial data, including: balance sheet, profit and loss; description of long-term debts; holders of portfolio securities; a summary of earnings for the past five years including net sales, cost of goods, gross profit, interest charges and net income; per share earnings and dividends or, for long-term debt preferred securities, annual interest requirements.

About capital stocks, it includes explanation of: dividend rights, voting rights, liquidation rights, pre-emptive rights, conversion rights, redemption provisions, sinking fund provisions and liabilities.

For long-term issues, it includes: interest rights, maturity, conversion rights, redemption provisions, amortization provisions, sinking fund or retirement provisions and liens and restrictions.

Form N-5R

This is the annual report of small business management investment companies. It gives:

- 1) the type of security and the exchange on which it is traded: information about companies which the registrant owns or controls
- 2) a diagram of the companies or persons controlling or controlled by the registrant, and their relationships
- 3) information about persons who own the equity securities, showing percentage of the class and number of holders
- 4) information about the directors, executive officers and advisory board members, including remuneration
- 5) class and number of full- and part-time employees of the registrant and its investment advisers
 - 6) identification of who has custody of securities and similar investments
 - 7) interests that any affiliated persons have in transactions
- 8) financial statements, showing income and expenses, investments receivable, payables, controlled companies and affiliated persons.

Form N-8A

This is the notice of registration which investment companies must file. It tells: name of registrant, form of organization (corporation, partnership, trust, etc.), state and date of organization.

If the business has directors, it tells the address of the principal office, names and addresses of directors, officers, advisory board members and investment advisers, and, if it is an open-end company, the underwriters.

If the business is unincorporated and has no board of directors, it shows the name and address of the trustee or custodian, sponsor, investment advisers, principal underwriters and the officers and directors of the sponsoring company.

If the business is a management company, the form shows whether it is open- or closedend, diversified or non-diversified and whether it is an employee securities company.

The form must tell whether the registrant sells periodic payment plan certificates and whether it issues its own securities to the public. Companies in which the registrant holds 25 per cent or more of the voting securities must be listed, and the last report to security holders is attached.

Form N-8B-1

This form is used to register management investment companies. It requires a great deal of

information, including:

- 1) Date, form and state of organization; any new business entered into, name change, bankruptcy, receivership or similar proceedings, interest of affiliated persons in transactions; whether it is open- or closed-end and diversified or non-diversified.
- 2) Descriptions of policies on matters such as: issuance of senior securities, the borrowing and lending of money, underwriting securities of their issuers, concentration of investments in particular industries, purchase and sale of real estate or commodities.
- 3) Security investment policies, such as: types of securities in which the company may invest and proportion of assets which can be invested, percentage of assets which can be invested, percentage of assets which it may invest in the securities of any one issuer, percentage of voting securities which any one issuer may acquire, interest in companies for the purpose of exercising control, investment in the securities of other investment companies, portfolio turnover.
- 4) Information about diversification of assets, including class of assets, value of each and percentage of total assets; information about companies the registrant invests heavily in, or controls 5 per cent or more of the voting securities; underwriting commitments, tax status, legal proceedings, capitalization; defaults and arrears on senior securities.
- 5) Financial information, including: income and expenses, capital changes and comparative securities information for the past 10 years.
- 6) Information about affiliated persons including: a diagram of persons or companies controlling or controlled by the company, showing their relationships; holders of equity securities; names, addresses, remuneration, positions and occupations of directors, officers and advisory board members.
- 7) Pension or retirement benefits to be paid; indemnification of officers and directors; class and number of employees; holders and portfolio securities; connections and employees of investment advisors.
- 8) Information about capital stock, long-term debts and other securities, including the rights of security holders; distribution of securities; information about the underwriters.
- 9) Financial data, including balance sheets, income and expenses; historical financial information, including increases or decreases in tangible or intangible assets.

Form N-1R

Form N-1R is the annual report of registered management investment companies. Part II of the filing sometimes is confidential.

Part I includes:

1) Class of securities and the exchanges they are traded on; information about companies in which the registrant invested more than 5 per cent of its assets, or in which the registrant

owns more than 5 per cent of the voting securities; underwriting commitments; tax status.

- 2) Financial data, including: balance sheet, assets and liabilities, income and expenses, dividends, capital changes and ratios (such as the ratio of operating expenses to total investment income).
- 3) Diagram of the companies or persons controlling or controlled by the registrant and their relationships; information about persons owning equity securities; information about directors, officers, advisory board members and legal counsel, including social security number, dates of service, occupation and remuneration of some officials.
- 4) Type and number of full- and part-time employees; investment advisers; identification of who has custody of securities; including their business connections and personnel.
- 5) Portfolio turnover; information about restricted securities held; monthly sales of the registrant's shares; information about shareholder's meetings including proxies; policies; information about underwriters.

Part II gives:

- 1) Formal meeting attendance by directors and advisory board members; purchase and sales transactions; vacancies in the board of directors and percentage of the board elected by securities holders; transactions with controlled or affiliated companies; remuneration of agents or brokers; deposit of funds in banks other than custodian banks; cross or circular ownership; brokerage commissions paid.
- 2) Family relationships of certain affiliated persons; exchange offers made to shareholders; the 10 largest dealers in the registrant's; correspondence relating to shareholder's accounts.

Form N-1Q

This form is the quarterly report filed by management investment companies. It lists:

- 1) Principal executive officers and investment advisors; total net assets; changes in portfolio securities; amount of government securities held; information about securities bought and sold, including symbol on the stock exchange, acquisitions or dispositions increased by stock dividends or splits and information about matters submitted to a vote of the securities holders.
- 2) Changes in investment policy regarding: type of securities, proportion of assets which may be invested in the securities of any one issuer; percentage of voting securities any one issuer can acquire; investment in companies for the purpose of controlling management; investment in the securities of other management investment companies; portfolio turnover.
- 3) Any significant legal proceedings, including bankruptcy or receivership; changes in control of registrant; terms of new or amended securities.

Form BD

This form is for registration, licensing or membership as a broker or dealer (a person or company trading securities). It shows:

- 1) Form or organization; if it is a corporation, the date and state of incorporation, and class of equity security; if it is a sole proprietorship, the person's residence and Social Security Number; if it is a successor to a previous broker or dealer, the SEC file number of the predecessor.
 - 2) Persons with controlling interest; how the business is financed.
- 3) The firm's or person's standing with the SEC and other regulatory agencies, including disclosure of having: made false statements to the SEC in the past; been convicted in the past 10 years of a related felony; been enjoined in the past 10 years from financial activities; aided anyone in violating related laws or rules; been barred or suspended as a broker-dealer; been subject of a cease and desist order; been associated with a similar firm that went bankrupt.

Who Must File

A book is published each year listing the companies that must file annual reports with the SEC. It lists the companies alphabetically and by industry. It can be ordered from:

Superintendent of Documents U.S. Government Printing Office Washington, D.C. 20402

Part II

How Money is Laundered

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Chapter 7

Principles of Money Laundering

Money laundering is simply the act of bringing unreported money into a person's or organization's recorded (or unrecorded) account by diverting it through legitimate business fronts. Financial crimes investigators classify laundered money into four types; black money, grey money, white money, and subterranean money.

Black money is money obtained by criminal means, such as kidnapping, bribery, fraud, tax evasion, theft, smuggling, trafficking in illegal commodities (such as drugs), and armaments dealing.

Gray money is money that the owner does not want known to be in his possession, even though it may not have been illegally obtained. Tax avoidance is legal if obtained through a "loophole" that the government has overlooked. A loophole has value only until it is used to such a degree that attention is focused on it. Then the government usually changes regulations so that the loophole can no longer be used. Thus the person or institution using the tax avoidance scheme may want to prevent having his legal tax avoidance system come to the attention of the government.

As another example of grey money, a person may have a business which is exceedingly profitable, and may want to conceal his prosperity to avoid attracting attention which could cause increased competition. Or a man who may not want his wife, or partners, or relatives to know he has made or obtained a large amount of funds.

The third type of money is clean, ordinary money—the type most of us obtain in small

quantities at rare intervals by hard work, investment, or inheritance. However, some people get clean money by laundering black or grey money.

The fourth and last type of money is that obtained through the "subterranean," or underground, economy. It has been estimated that in the United States alone, this economy is worth at least \$500 billion per year, in both legal and illegal money, depending on the circumstances. Basically, it is like the ancient bartering system. A barber cuts his dentist's hair free, and the dentist gives him free dental services. But the phenomenal amount of this unreported money indicates a substantial portion may be illegal.

The difficulty of money laundering depends on the amount to be laundered, the place of laundering, and the sophistication of the procedure used. The simplest method in many countries is to take a risk and use the local banking system. However, this is difficult in the United States because of the reporting required. It is generally not difficult to change the respectability of currency.

There are three principle means of laundering money. The bank method, the tax haven method, and the black market method. The last is the simplest in many countries. Every country has a parallel money rate, variously called the free market, inland, or black market rate. The cost of changing currency in most countries is about 10 percent, but in countries with strong currency, it may only be 2 or 3 percent.

In practice, the black market method works this way. Assume a person has "black" money in a given country, say, New Zealand. He can take it to the black market and change it for another currency such as U.S. dollars, at the black market rate of about 5 percent. This money, now in U.S. dollars, can officially be sent back to the country in which the switch was made. The black money has been made white.

In countries with no exchange controls, money need not go through the black market. It can be changed at the official rate at any bank, without records. The system of using the parallel market involves two countries, but it is safe as long as the person is not caught dealing with the black market money changer.

The bank method of legitimizing black or grey money is perhaps the most commonly practiced method in the United States. A drug trafficker, for example, instigates the changing of money through the banking system thus: A bag of soggy bills collected from street sales is taken to the neighborhood bank and changed to reputable financial instruments such as T-Bills, Letters of Credit, large denomination traveler's checks, real estate deeds, or bank drafts, thus becoming "clean." Up until 1980, this was reasonably easy to carry out in the United States.

In 1979, proposed amendments were considered by the Treasury Department, and a new Bank Reporting Ruling went into effect in July 1980. The ruling is too complex to report in

full, but its main thrust was to amend the Bank Secrecy Act which requires financial institutions to report uninsured currency transactions in excess of \$10,000. Specific forms provided by the Secretary of Treasury must be used for reporting purposes.

Every currency transaction over \$10,000 has to be reported, with positive identification of the person making the transaction (including name, address, Social Security number if a U.S. citizen, or passport number if alien, and various other details). The new regulation made it most difficult for any one person to make a currency transaction of more than \$10,000 without a complete disclosure to the government.

The tax haven method is probably the most important of all. When World War II ended in 1945, there were approximately 55 countries in the world. Today there are just under 200. Every fragment of a major country seems to want independence. Once they have independence they usually find that their costs of operating greatly increase. However, all of the costs cannot be supported by inward cash flow. The new countries usually give up agriculture, and everyone moves to the city, where there is electricity and television. For a while they "borrow their way to success" from overseas banks. But when their credit lines are exhausted, they eventually scratch at any source of income. One ever-present possibility is to operate as a tax haven—a conduit for tax evasion money, tax avoidance money, or black market derived from crime.

Money goes around the planet earth 24 hours a day in search of vacuums. "Hot money" seeks out the cool areas of survival, including what the Germans call *Eine Steveroase* (a tax oasis) and the French call *un paradis fiscal* (a financial paradise). Tax havens are refuges from death duties and high taxes. The oldest and best known tax havens are the Cayman Islands, the Bahamas, Switzerland, Liechtenstein, the Netherlands Antilles, Monaco, Macao, Hong Kong, and Luxembourg. However, so many new havens are being created—e.g., the New Hebrides, Andorra, the Caicos, and Turk Island—that policing them for infractions is all but impossible. The new nations of the Federated States of Micronesia and the Marshalls and numerous other newly spawned nations in Africa, Asia and Europe will undoubtedly play an important role in money laundering.

Take the case of Nauru as an example. It is an independent nation, 8 square miles in size. It is a member of the United Nations and a British Commonwealth. It has no taxes of any kind, no tax treaties, and no exchange controls; commercial transactions may be carried out in any currency. The country prohibits immigration. Government almost never grants tourist visas, and it certainly does not grant tax investigation visas. A visa would be virtually impossible for an IRS or any other tax investigator to obtain. The government is sound and stable. The people of Nauru have a standard of living 50 percent higher than that of the average American citizen. There is no political unrest. English is the official language. Nauru has modern companies and trust laws, and the law draws on British traditions. It is the smallest nation in the world with a president, elected parliament, and a well-developed civil service. It has its own highly efficient airline which flies to 20 or more countries.

A holding company can be set up in Nauru with as few as one and not more than 20 shareholders. The holding company has remarkable powers. It can operate without an annual meeting, and there is extraordinary freedom in relation to its shares. It need not have an auditor. Books can be kept outside Nauru's jurisdiction. A company is effectively established by sending in a form issued by the government. The annual corporation fee is as low as \$150.00 (naturally, the cost varies with the number and complexity of services required).

Commercial transactions or money can be routed through Nauru. The structure of Nauru's corporation act makes it easy for U.S. companies to form Nauruan holding corporations and manage them as wholly owned corporate subsidiaries without the necessity of setting up a "board of directors" as is required in many countries. The laws of the country have a statutory bar against any disclosure. An overseas company can easily and cheaply form a holding company which can do almost any conceivable commercial transaction such as being an intermediary in money legitimation, tax avoidance, profit stripping, re-invoicing to skim profits and take them tax-free, or do almost anything that does not represent fraud or a legal breach in Nauru (the transaction can breach laws of other countries, but Nauru does not set itself up as the world's policeman). The government has made positive efforts to welcome offshore investors and offers Nauru as a secretive tax haven, superior to those that suffer political unrest and upheaval.

It is not difficult to see how this serves those who have a need to transform black currency into white currency at a low cost, with complete secrecy. It is nearly impossible to prosecute someone through tracing finances if that person is sophisticated and knows how to use tax havens.

U.S. federal law requires that any transfer of over \$5,000 out of the United States must be reported to the treasury. This, however, does not apply to inter-bank transfers. Therefore, anyone moving large amounts of cash have to set up their own banks. These are usually one-room operations in places like St. Vincent, Anguilla, or the Cayman Islands. The cost of a banking charter and license in the Cayman Islands is \$6,500 in total. The bank can be "owned" by a Cayman management service company, and the beneficiary owner need never be known to any investigator. In Anguilla, no paid-up capital or reserves are required. Anguillan law states that a bank's license and charter can be sold *without* government approval.

Some bank haven countries even offer bank charters and licenses for as little as \$60.00. The low cost of owning an offshore bank makes it quite easy to transfer huge sums of money, with no reporting to anyone, and the cash filters through the bank as a conduit. It can be returned to the United States, pure as the driven snow, as a loan or any other similar way, or it can be placed in a secret account elsewhere.

Another ruse is the use of bearer bonds. These are not registered in anyone's name—they belong to whoever holds them. A person who wants to hide his money can buy municipal

bonds and store them with his broker (unlike T-bills). The broker keeps them separately in a special account for each customer. The only place where a name is registered is at the brokerage house, which keeps the name only of the original buyer and the holder at the time of sale. It does not record intermediate sales. A lot of people use this system to keep their money possessions secret.

Tax-free municipal bonds are also used. The *Wall Street Journal* lists these and their interest rates. They are usually in bearer form, and interest is paid by redeeming coupons. They are available only through brokerage houses. The broker keeps the name of the original purchaser, but intermediate sellers and buyers are not registered. These bonds may purchased with cash or otherwise, through a third party. Millions of dollars of unreported assets and income can be accumulated this way.

There are numerous other methods of laundering money. For example, insurance agents can accept deposits in any amount, and no bank reports are necessary. Examples laundering money through insurance companies include:

1) The overseas "Umbrella life policy." An overseas insurance company (usually in the United Kingdom, Jersey, Switzerland, Hong Kong, or Australia) sells a life insurance policy in the United States. (They are even sold by direct mail or telephone solicitation.) These overseas companies have devised an "umbrella policy" which includes not only life insurance, but also investments. For example a \$300,000 policy may have \$100,000 in full life insurance, and \$200,000 in currencies, stocks, bonds, T-bills, or other investments. The policy is classified by the United States as insurance, even though it is only partially insurance. It is usually single payment, the total cost for life is paid up at the time the policy is taken out. The cost may be \$60,000 or more, depending on the makeup of the policy, for a \$300,000 policy.

The advantage of this type of policy to a normal customer is that when the insured dies, his heirs get the full value (investments and all) tax free. If the investment part was separate and not packaged with the insurance, the heirs would have to pay death duties.

If a policy holder wants to cash in the policy before death, say in five years, he pays only capital gains on his earnings.

2) "Borrowing" against a life insurance policy. A money launderer buys a policy from a company. He can pay the agent in any way he wants, perhaps even with bags of soggy bills. Unlike banks, the insurance agent does not have to report cash transactions over \$10,000. The money is received by the agent, who finds ways to get it to the parent company. The money launderer then borrows up to 90 percent of the value of his policy, and the money is sent to him wherever he desires. The U.S. government is quite accustomed to loans from insurance companies to policyholders. The borrower pays no tax on a loan. It is all legal, and the \$300,000 (or whatever the sum) has been returned to the laundry man with no tax, and only a small service charge, quite proper. The IRS has no objection showing a loan from an

insurance company.

Contrary to popular belief, the 1980 reporting regulations (Section 103.22 of part 103 of Title 21, code of Federal Regulations) did not make money laundering impossible. The 1980 Treasury Department Regulations have produced only two results: 1) money laundering was temporarily retarded while people found more sophisticated systems of circumventing the regulations; 2) it is now more difficult, more costly, and more important to launder money. The amount of money laundering may even have increased because laws make it imperative to launder black and grey money.

The 1980 regulations did not stop money laundering for a variety of reasons. Federal regulations do not restrict banks or other financial institutions from accepting or transferring cash. It only requires financial institutions to "report within 15 days all *unusual* deposits or withdrawals or other transactions, the name and address, the account number, social security or taxpayer number (if any), or in the cases of aliens a passport or identification document (unless the person or institution is exempt) and only in cases of over \$10,000 transactions."

Exempt from this regulation are U.S. residents who operate retail stores which deal in a "substantial amount" of currency. Exempt also are U.S. residents who operate amusement parks, bars, restaurants, sports arenas, racetracks, grocery markets, hotels, licensed check cashing services, or theaters. For example, one could own 3 different bars in 3 different cities, use several banks in each city, and make cash deposits of tens-of-thousands of dollars per day with no reports filed by the banks, and without breaking the regulations.

Exempt also are withdrawals of cash for payroll purposes. Finally, transactions between domestic commercial banks or home loan banks are exempt as are transactions between nonbank financial institutions and commercial banks.

Because currency transactions involving less that \$10,000 do not have to be reported, one can deposit or "legalize to other forms of money" any amount as long as it is divided up—for example, he can launder \$24,000 by three \$8,000 deposits in three banks or branches.

Chapter 8

Money Laundering Methodology

Using Banks

Even though the 1980 regulation theoretically should have stopped bank participation in money laundering (except in those cases that are exempt from the reporting regulations), laundering is obviously still being carried out on a massive scale. There have been thousands of instances of bank tellers accepting large and continuous quantities of small bills, or other suspicious deposits, and issuing cashiers checks for them without filing the proper reports.

Banks will inevitably be used to aid and assist in money laundering. In the late 1980's the Justice Department proposed making money laundering a crime. While banks do not launder money, but do "assist" money launderers, it is presumed that bank employees could be charged with conspiracy if they fail to properly follow reporting regulations. The problem with this type of law is that it must be most carefully defined. [Like the rest of our laws? *Sorry*, *couldn't resist:* Editor.] There is often a fine line between those who provide the channels for converting hot money and those who are merely changing money for private, but honest and legal purposes. The law may be difficult to enforce if accountants, lawyers, and bankers are expected to become law enforcement officials.

While banks do not launder money, but do inadvertently assist money launderers, it is presumed that bank employees could then be charged with conspiracy if they failed to properly follow reporting regulations. The problem with this type of law is that it must be most carefully defined. There is often a fine line between those who provide the channels for

converting hot money and those who are merely changing money for private, but honest and legal purposes. The law also may be difficult to enforce if accountants, lawyers, and bankers are expected to become law enforcement officials.

Another difficulty is that money laundering usually involves several steps and several persons or several institutions. The part carried out by the bank, when considered in isolation, is moral. It is a banker's function to change money, sell bank drafts, and forward funds to other banks. The accountant sees his contribution, in isolation, as honest; it is his function to keep financial records, not to investigate all the numerous steps by which funds are acquired. The same principle is true of the legal counsel, the money carrier, the bookkeeper, the chauffeur, and everyone connected with the business of moving the money.

With the exception of those who generated the money, all of the participants genuinely see their role, in isolation, as being completely honest and respectable. It is only when all of the separate steps are linked that the total operation and each person's input are regarded as a crime.

As long as professionals and others who assist see their own role in isolation, it will be impossible for them to do the work of law enforcement officers. Those who would control the flow of money persistently demand more than laws and punishment, they demand a new standard of "ethics," which means nothing less than a redefinition of supposed criminal behavior. But, as each formerly legitimate conduit of money laundering is closed, people will resort to new inventions, and these will constantly be changed and upgraded. Income tax violation has been a crime in the United States for well over half a century, yet it is more widespread today than ever before. Making money laundering and assisting those who launder money a criminal conspiracy will not stop the legitimizing of black money.

Foreign banks are common facilities for money laundering. They are particularly used for laundering large sums of money. Swiss banking secrecy, numbered accounts, and government banking policy have, for decades, been said to foster crime. In general, Swiss banking policy dictates that a Swiss bank must obey all Swiss laws, but may not divulge private information regarding client's accounts. The Swiss government's policy has generally been that Switzerland is not the world's policeman and cannot be expected to cooperate with any country that enacts laws that it cannot enforce. It is generally believed that billions of dollars have been deposited in Swiss banks, where they remain discreet or become legal upon their withdrawal.

Swiss secrecy has been used by governments, heads of state, and high government officials themselves to conceal or legitimize money, along with tax evaders, smugglers, participants in black market currency exchanging, and almost every other major activity involving money.

Probably everyone knows how a numbered account functions. The bank's customer is assigned a number only, his name is never used. To withdraw money, the operator of the

account signs the number in long-hand, *written out*, rather than signing his name. His signature is scrutinized, but it is his handwriting of the account numbers, not his name. The individual handwriting of the numbers prevents fraudulent withdrawal by unauthorized persons who learn the number.

For many years, Swiss banks were the only banks that used the numbered identification account system. However, numerous banks in various countries have since copied it. Most major U.S. banks have a "Private Banking Department" for their larger depositors. They also have branches in Switzerland, Liechtenstein, Jersey, or other efficient tax havens or banksecrecy tolerating countries. A customer in New York, Miami, or wherever who has enough assets to qualify can open an overseas tax haven numbered account with the overseas branch. The U.S. government (or whatever the depositor's home government) has completely lost control of his financial activities. He can deposit almost any amount in numbered secret accounts in Liechtenstein or Jersey and move his money as and when he sees fit, with no reporting of its existence or interest payments or movements of funds. No name is involved. The major U.S. banks can operate as go-betweens for U.S. citizens and their foreign branches, assisting in legally circumventing all of their client's U.S. tax and reporting responsibilities.

In a numbered account situation there is only one weak link: Someone at some bank has seen the person who has the account. Some European banks are now providing the ultimate privacy service in the form of computer accounts. These are not advertised, most banks that provide them will deny it, and one can use this service only if he is properly and discreetly introduced to the bank. With a computer account, no one even sees the depositor. With a few movements on the computer, the deposit can be transferred to another branch, another country, or another account.

It is next to impossible for tax investigators or law enforcement agents to snare the depositor. The sophisticated money launderer, who can conceal his implication in the acquisition of the money, can use the overseas banks, or the overseas branches of U.S. banks, to make detection through finances almost impossible.

The structure of Hong Kong's financial operations does not require reports of cash transactions and considerable secrecy is legal, including the use of nominee shareholders and non-disclosure of shareholders. It is important to recognize that Hong Kong's role in financial transactions is of major importance; Hong Kong is the world's third largest financial center, behind only London and New York. Hong Kong operates a laissez faire economy and has few financial restrictions of the type applied in the U.S. system.

Anyone can arrange with a bank for a certificate, stating something like: "We are holding HK\$900,000 in the following carefully selected coins (this is followed by a list of the coins and the value of each) on behalf of Mr. Launderer, awaiting payment by Mr. L."

A courier then goes to Taiwan from Hong Kong and picks up the HK\$900,000. He gets a

receipt signed by the laundryman so that if the money is confiscated by the Taiwan government, the bank or the courier will not be held responsible. The courier carefully hides the funds in his luggage, along with souvenirs, books, and business papers. He is an expert courier and it is highly unlikely that immigration authorities will be aware of the funds. (The funds can be in any currency, because Hong Kong has no exchange controls.) If the currency is noticed by government officials as the courier leaves Taiwan, it may be confiscated.

The bank courier is protected by the certificate. He was doing his job in collecting a valid debt to his bank. Once the funds are in Hong Kong, the launderer is charged 10 percent for service, and he can have the money deposited in his account in Hong Kong, or sent wherever he wants it.

There is an enormous amount of money laundering in the British Commonwealth and third world countries, as well as in isolated places like Saipan and Nauru (and even Cook Island). The very remoteness of these places from the United States and other major countries make them difficult to police and makes it easy for money launderers to operate there. Many of the Pacific Islands and third world countries are hard-pressed for ways to increase their standard of living, balance of payments, and inward cash flow. In the Commonwealth the only time banks can be regulated is once they have their license, but then banking secrecy comes into play and there is no viable source of information to positively vet people applying for a bank license.

In Australia, currency controls are circumvented by the "offshore courier arrival scheme." There is an old law on Australian books that enables any foreign visitor to legally take out of Australia any funds he brought with him, provided he had deposited them in a bank on the day he arrived. He may draw these funds out before he departs, as they were reported and deposited in the bank according to law.

Picture this scenario: A courier, either independent or representing a bank, departs from Seoul on an evening flight, carrying a copy of that day's Seoul newspaper. He has as airplane round-trip ticket to Sydney. When he arrives in Sydney in the morning, he goes to a prearranged street and walks down the sidewalk. A man walking in the opposite direction meets him as they pass, the courier is handed a bag. The two walk on and never speak or break stride. The courier takes the bag to a private location and finds in it money bundled exactly as the banks in Seoul wrap it (banks in some countries use paper bands, others merely fold it in a certain way, etc.) The courier then wraps the bundles of money in the Seoul newspaper (this is most important—it is proof that he arrived that day, since the newspaper has yesterday's date on it.)

The courier then goes to the bank and visits a middle manager (not at a teller's window, but at a desk where he can sit down). He explains to the banker that he has just arrived that day. He shows his stamped passport and his airline ticket. To add credibility, he pulls from his bag money wrapped in the current Seoul newspaper. He explains that he brought the money

because he wanted to buy some Australian property. He opens an account and deposits the money.

A few days later, he returns, and asks for a bank draft (sometimes called "certified check" or "cashiers check.") With this draft, he can leave the country and deposit the funds in New York, Hong Kong, Switzerland, or wherever his customer, the real launderer, desires. Usually such couriers make frequent trips. They buy two round-trip tickets and use the departure slip of one ticket one-way and the departure slip of another the other way. (This keeps travel costs low, since couriers always fly on an excursion rate ticket even though they only stay 2 days and may make as many as 10 trips in a month.)

While they are in Australia, they clean up some additional black money by taking a bag of small bills and going to dozens of traveler's check outlets, such as American Express, banks, etc. They buy \$1,000 in \$50 checks at each stop, as \$1,000 in small bills does not attract any attention. In two days they can launder \$25,000 or more, and it is a simple matter to take \$25,000 in traveler's checks out of the country. They will also take out of the country as many bills as they can conceal.

Two couriers working for one U.S.-based bank, finance company, or other institution can launder as much as \$20 million per month. They have broken no law, and Australians desiring to conceal their money have moved their money to the United States, or Switzerland, where it escapes attention and Australian tax. The American (or Swiss) bank usually gets about 20 percent commission for the courier service, and this money is split with the courier. The bank gets the use of the funds, which enables it to make more profitable loans.

Using Corporations

Domestic corporations in the United States are also used to launder money. Forming a company is very easy. In most places, one can get a license by just going to the county seat office and filling out the appropriate forms. The "undergrounder" then applies to state taxing authority for a tax number. He can then use this company to launder a great deal of money an eventually get it to a secure tax haven.

Most "undergrounders" who do this keep the company going for about six to nine months, and then go to a different city and set up a new company. These companies can be used for credit references; offices and apartments, rental, lease, or purchase agents for air tickets or real estate; and as vehicles for opening bank accounts and stock accounts. All of these make it easy to launder money.

Corporations are also widely used to launder money. It is not difficult to establish a corporation. In many places, you can go to an accounting firm and buy a "shelf corporation" (a corporation that the accountant has already set up, which he sells as an immediate, ready-to-go operation.) There are several lawyers in the United States who advertise that they will establish corporations for less than \$200, and they can do it in much less than a week's time.

An average of 50,000 new corporations are formed in the United States each year, and it is nearly impossible to police them all. It is well known that the two states that have the least-stringent reporting regulations and are easiest to do confidential business in are Nevada and Delaware. In Delaware it takes one individual to incorporate, whereas in most other states, incorporation requires several people.

Once he forms a Delaware corporation, the launderer can get the corporation registered to do business in any other state. If he does not file an annual report, he is fined \$50, which means nothing to an "undergrounder." Actually, a person can form any number of corporations by post and operate them with the help of a management service such as a registered agent or even a management consultant. Anybody can use an alias and establish a corporation without even bothering to get false identification.

Many undergrounders also set up corporations, especially in tax havens, to launder money. It is not difficult to establish a bank to launder money in the Caribbean. St. Vincent, in the British West Indies, is widely known for this. A bank there has almost no restrictions and can be set up for a very small amount of money. It can easily launder money by issuing insurance; selling certificates of deposit; accepting and providing confidential, numbered bank accounts; issuing certified or cashiers checks; exchanging currency of every description; acting as agents of private corporations, persons, or governments; issuing bonds; and acting as trust companies, or as trustees.

Once an undergrounder owns his foreign tax haven corporation or bank, the laundering of money becomes very simple (and exceedingly difficult to detect.) Most tax haven countries will not give the United States or any overseas agency information, and above all, they make it a point not to consider tax evasion a crime. It is very difficult to extradite a person from one of these tax havens unless his actions are also illegal in that country. Many of the tax laws that the United States want to enforce refer to activities that are perfectly legitimate in foreign countries, and this makes extradition very difficult for the U.S. government.

Chapter 9

How Money is Laundered

Business fronts are used extensively to clean black money. A good example is mail order. An individual forms a mail order business (such as a video tape rental) and a store. He advertises in magazines and various other ways. With both a mail order operation and a store, there are many opportunities. Any amount of money desired can be shown in his books. He can use mail drops to send orders to himself. Since legitimate orders will come in the post, the fake orders will appear bona fide also. He can buy products for mail order and keep the receipts. He can then sell these products back to himself, using mail drops. He can keep on recycling money and video tapes indefinitely, with minimal overhead.

To recoup the money from accounts, he writes a check and opens an account in a taxfree municipal fund that has checking privileges. The account can be opened by mail under an assumed name. The accounts are spilled into this fund. Then he opens a checking account using a false identification at various banks in other cities.

The next step is to take the money from the bond fund and deposit it into his numerous bank accounts. He can then collect the money himself or have it sent directly to an offshore corporation's bank account in a tax haven. Once the money reaches the tax haven, the deadend trail ends; the IRS cannot cope with the routine, or even decipher it.

As another example, the money launderer places an ad in newspapers, advertising a charity and asking for contributions. When his ad appears, he uses mail drops all over the country and sends donations to himself in the name of the charity. He goes all over the country and has money orders made out to him under a wide variety of different aliases. In

many cases, he uses one mail drop for letters to another mail drop, which in turn sends the letters to another mail drop before coming to him, again using different aliases. This is exceedingly confusing for the IRS to check out. He may have used 300 mail drops, and he averaged \$200 per money order. In a few months he has created a large sum of laundered money with minimal expense.

Another lucrative business front is vending machines. Vending machines today sell everything from postage stamps to toiletries, panty hose, cigarettes, candy, beverages, and even insurance. These machines usually cost about \$5,000 and can be bought for about a 10 percent down payment. These machines are placed in hotels, businesses, airports, bus stations, and numerous other locations.

The undergrounder makes false records of the sale of each machine. He then makes sure that his purchases of inventory match his alleged machine sales. He accomplishes this by recycling the products. For example, he buys 100,000 pairs of panty hose. He then takes perhaps 90 percent of these and gives them to a company he owns, or to himself with an alias, in another location, such as another state. He then sells these back to his vending machine company. He has proper business papers and invoices. He recycles the same pantyhose over and over.

At the end of the year, he can show perhaps \$1 million in sales, when he in fact only has \$50,000 in sales. By matching bogus purchases with bogus sales, he can stand up to inspection. He can use a mail drop in another city to advise himself that the panty hose are for sale. He deposits the money the books show the vending machines collected, and the money has now been laundered.

To lower the tax on the large vending machine profits, he uses "creative accounting," advertises (with a company of his own, of course) pays phantom, well-documented bills, attends business conventions, employs his children, and passes on some of his overhead (office costs, telephone costs, etc.) As long as he doesn't get greedy, spreads the false overhead widely, and pays some tax, he is not likely to be detected.

Another scheme is the tax-free bond switch. The undergrounder first opens a bond account in the United States with a stockbroker. He buys bonds that are tax-free, both in the states where he has his accounts, and federally. There will be no reporting of any transaction as long as he doesn't try to buy with over \$10,000 in cash at any one time or over \$5,000 in cashiers' checks. He can even do this in his own name, although, to increase security, he usually does it with an alias and runs it by using a mail drop and a telephone. If he is asked by the IRS where he got the money, he can say he had just saved it up over the years in small amounts. He then steadily feeds the money into the bond account in small amounts (less than \$10,000 in cash or less than \$5,000 in cashiers' checks.) After the account is built up to a substantial amount, he has the stockbroker transfer the balance to the brokerage's bank account, either in another firm, or in the same firm. This requires no reporting to the IRS or the Treasury Department.

The bank then cashes the bonds, and the undergrounder has the money transferred to a

tax haven where he has an account. The bank doesn't have to file a report because the money was sent by bank transfer, through the stockbroker's bank. Since neither the undergrounder nor the tax haven held the bonds long enough to acquire any capital gains on the bonds, there is no need to make a report. This method defies even changing laws on international currency transfers, because the bank has to file the currency reports (without mentioning the undergrounder's name) in its own name. The funds can then be sent to a tax haven country that is prohibited by law from giving his name to the authorities. (E.g., a Cayman Island bank cannot even give information for credit checks unless the client approves.) This all goes to show that if the undergrounder does his homework well, there is always a legal way to circumvent the rules.

Another method is the Daisy Chain of shell corporations. Major money launderers are sophisticated and can afford to use the services of experts such as lawyers, estate planners, and other professionals to set up a "Daisy Chain," which is a string of corporations in different countries, particularly tax haven countries.

For example, a Miami undergrounder can form a discretionary trust in the Cayman Islands through nominee persons. This trust can own a corporation in the Bahamas through nominee shareholders. Again, the Bahamas company can own a "shell" corporation in perhaps Vanuatu. From here, the money can be channeled into a numbered Swiss or Liechtenstein or Jersey bank account. The chain of nominee companies can be so complex that, even with years of intensive effort, agents of the U.S. government would not be able to trace it down to the owner. The IRS and other government agencies would look down a tunnel so dark that there isn't even a light at the end of it.

This is a widely used and very effective means of laundering money, and avoiding or evading taxes. An accountant's office in a tax haven country will have probably 2,000 names of corporations, each of which actually consists of one file among perhaps 2,00 other files in the office. There is simply no way the IRS or any other agency can trace down a series of shell companies owned by nominee owners in four or five different countries.

Business gifts may be used to launder money. The U.S. tax law allows a person to receive a gift of \$3,000 without paying tax on it. The person giving the money does not have to pay gift tax on it, so money launderers make frequent use of gifts of less than \$3,000, which are then cycled back to them. They make the gifts in cash and have the person get the money back to them in a laundered, clean way, so they don' have to deal with the cash. They can't be caught unless to person they gave the gifts to informs on them. And even then, it comes down to one person's word against another, which is not a strong case for the prosecution.

The laundering of "flight capital" is another common practice. The most classic example is the case of political refugees (such as the Jews in Germany before and during World War II, or the Vietnamese exodus.) People who find it necessary to leave a country usually find it necessary also to send their money overseas. This is almost always illegal, and it is accomplished in many ways.

When the English-descent population of Rhodesia lost control of their country to the communists led by Robert Mugabe, large numbers of them wanted to leave the country. They were allowed to take only something like the equivalent of \$2,000 with them. They therefore devised many ingenious methods to take their money out of the country. Some bought large quantities of Rhodesian tobacco—perhaps \$200,000 worth (or whatever they could sell their farm for, plus their life savings.) They then sold the tobacco to a friend or confederate professional in England or Holland, or some other country. The sale would be on a sight-draft basis. The sellers pretended to take their family on vacation to England and never returned. They then repossessed the tobacco from their confederate and sold it for the best price they could get in Europe. Their friend would default on the draft. The money was then safely moved from Rhodesia to Europe, in violation of strict currency laws.

Many also built luxurious boats in Rhodesia, then moved them (legally) by truck-trailer to Beira and simply sailed away, selling the boat when it arrived at a suitable place, such as Durban, where the economy was good. Moving flight capital is similar to money laundering, and the procedures are numerous and valid.

Another method of laundering money is the use of Precious Metal Certificates. These are receipts for gold, silver, platinum, or palladium, Austrian 100 Coronas, or gold coin stored in banks or with metal dealers. When even billions of dollars in precious metals are stored, the purchaser receives a certificate that can easily fit into an envelope. Many American banks will store these certificates for a customer in another country, such as Canada or Switzerland. Because the certificate is not a negotiable instrument, it can be sent by mail to other countries and need not be reported to the Treasury Department. Even the existence of such a certificate does not need to be reported to the IRS.

An undergrounder can buy metals in New York or Miami, for example, but have them stored in Switzerland. He can reclaim the metals on a trip to Switzerland, convert them to other mediums of value or exchange, and bring the converted value back to the United States, legitimized and with no reporting. If the undergrounder sells at a profit, the profit legally should be reported to the IRS, but this is generally not done because the IRS has almost no chance of tracing the transaction.

One new technique in money laundering is the use of "thundering snerds." These are the couriers whom the money launderers send out to visit banks to buy cashiers' checks in amounts small enough not to attract official interest. Snerds are ordinary people, generally young and quite frequently university students who work in their spare time. They take cash into banks all day long and obtain cashiers' checks. These cashiers' checks are readily negotiable because they are signed by a bank itself. Banks do not hesitate to provide such checks for individuals for a small fee. Almost everyone uses cashiers' checks where a personal check isn't acceptable, or where a person doesn't have any checking account. A typical snerd will visit about 20 banks a day, purchasing at each a check for \$5,000 to \$8,000 in cash. They use assumed names, and they generally receive 1 percent of each transaction. The cashiers' checks are then passed to the money launderer, and he can deposit

it without question in any bank account. From there, it can be transferred wherever he needs it.

Techniques

It is difficult to describe in detail all techniques used to launder money. One useful method is through jewelry. You can take cash to a jeweler, and he will sell you a one-carat, high-quality diamond for something like \$20,000. A money launderer can go to several jewelry stores and obtain diamonds of whatever size he wants. (We mention one carat because these are the most in demand and the easiest to use as a commercial tender. A diamond obtained with an American Gems Society Certificate can easily be sold at a moments notice.) Diamonds have, for many years been the finest flight capital. One can sew 20 or 30 one-carat diamonds into one's cloths and pass through customs to another country without any custom officers observing the hidden stones.

Smuggling has been going on for centuries. Money launderers do not hesitate to smuggle jewelry or rare coins or anything else that has high value in high density. In Amsterdam, there is a museum of smuggling. It has thousands of pieces of clothing on display which were used in smuggling and which have cavities in them where money (or anything else) could be hidden.

Al Capone used Christmas-tree ornaments to transport alcohol during prohibition. It is obvious that such things as musical instruments, furniture, and even decorative ornaments could be used to transport money. Money launderers have also hollowed out books to make a space in which bills could be placed.

At one time, right after World War II, South Africa had a regulation prohibiting the export of gold. However, it was legal to export religious items. One of the world's richest men had chalices cast in pure gold. The man moved hundreds of millions of dollars to the United States in the form of chalices that were later melted into ingots.

Money can also be sent as an investment from an overseas company (your own overseas company.) This scheme allows so many possibilities that we would need a personal discussion with each potential launderer to find out the means that would best suit him to obtain the required advantage. Many people successfully get black money out of the country in which it was generated. They then use the black market method to send the money to a foreign account, where they leave it for spending when they are overseas.

Liechtenstein is one of the best places in which to own a company, as the owner can have a bearer company. There is also a secret bank account with which one can open bearer accounts in certain countries. Many banks have computer accounts and bearer accounts, but they don't advertise and they don't like it to be well-known. Actually, laundering money is somewhat like having a suit made: Ordinary banking is like buying a suit off the rack; laundering black money is like a tailor-made suit. Most launderers go to a professional who advises them exactly how to be the tailor.

Another method of cleaning up money is to buy travelers' checks. A courier can visit bank after bank with cash, getting travelers' checks for \$1,000 in cash. This arouses no

suspicion. He can go up to 30 or 40 banks in one day and get a thousand dollars worth of travelers' checks at each one. Travelers' checks are also very easy to carry or mail out of the country, where they are completely laundered and lose their entire former identity.

Remote call forwarding and mail drops are also used to launder money. In almost every city in the world, one can arrange to have a local telephone company take calls and messages and forward mail. This can be set up by telephone, and the customer can use an alias. Telephone companies have a service they call RCF, or "remote call forwarding." The cost for this service is remarkably low, plus the cost of long distance charges. This means a person can call long distance without any exposure. The telephone company assigns an undergrounder a local number in a city of his choice. Then telephone calls are automatically directed to the customer's actual location, with no waiting and no operator system. This means that a customer is only a "local" call away. Undergrounders use this system to back up job history, credit references, aliases, or any use they may need to verify.

Reinvoicing is another technique. A person or company in the United States, for example, that wants to launder money can sell merchandise. All they need to do is set up a Cayman Island corporation or a corporation in any tax haven. They can then sell goods (of any type) to other companies. This works especially good for export sales. If the undergrounder sells 20,000 pairs of panty hose, or tools, or whatever in Miami to e.g., Canada, he can ship the goods directly from Miami to Canada but invoice his own Cayman Island company. The Cayman Island company in turn invoices the Canadian customer. The company in Miami sells at a very low price to the Cayman reinvoice company (probably 3 percent over cost.) It then takes its profit, which may be anywhere from 5 percent to 500 percent in the Caymans, and reinvoices the goods to the Canadian customer. In many laundering operations the seller and the buyer are the same, but reinvoicing gets the money to the tax haven, where it is effectively laundered.

Another ruse is using Gold Bank Accounts. There are dozens of these in the United States. For example, Merrill, Lynch, Pierce, Fenner and Smith have the "share builder plan," which can be started for under \$500 and further deposits can be made in even smaller amounts. Merrill Lynch provides quarterly reports for the gold amount, with free storage. Since no interest is paid, no reports are made to the IRS.

Silver coins, rare stamps, Austrian 100 Coronas, Krugerrands, diamonds, and physical gold are also widely used. All of these except for silver coins (which remain legal tender), can be taken out of the country in any quantity without being illegal or reportable. The major problem with these, of course, is that they all take up a lot of space. It is impossible to move exceedingly large amounts of money this way. One million dollars in Krugerrands fits in two bags, but they would be exceedingly heavy to carry, and they would attract attention and subject one to customs inspection problems.

At the same time, \$1 million worth of rare stamps, coins, or diamonds can fit easily into a lady's handbag. Of course, the undergrounder has to buy at retail and sell at wholesale, so he takes a loss.

Many investment agencies operate a collectable account. This is an investment portfolio on rare coins and stamps. These items are bought by experts from private sales, auctions, dealers, and estates. The general public, including money launderers, can invest in these accounts. Undergrounders use these types of accounts extensively, since they can be opened, operated, and closed by telephone, even using aliases.

Another laundering method that is still used is the race track. The U.S. tax court has ruled that a diary of his day-to-day winnings and losses is all that a person needs for record purposes. He doesn't even have to have his losing ticket for proof. At tax time, the undergrounder declares, perhaps, \$200,000 in winnings and \$80,000 in losses. This allows him to show \$120,000 as income for race winnings. Thus, \$120,000 has been successfully laundered.

How to Avoid Getting Caught

Money launderers avoid getting caught by doing their homework. Most of the successful money launderers plan very carefully; they get legal and accounting advice, and they consider even the most elementary details. They plan ahead to see how their actions will work out. They keep quiet about what they are doing. Probably 90 percent of all those in prison got there because they talked too much. They forgot that girlfriends, wives, and business associates who are friends today may not be friends at some point in the future. They don't get greedy; people who want to take everything and can't accept leaving something behind are the one's who get caught.

The clever money launderer uses a certain technique, a certain code, a certain system for a while. Then even though it is working well, he switches to another. Meanwhile, the law enforcement body is still trying to catch him through the last program, which he is no longer practicing.

Money launderers avoid getting caught by doing as much business as possible through mail drops, general posting of mail, telephones, and computers which frequently change codes on telex machines. They also rarely let anybody see them at work. They keep a low profile, using the mail and an assumed name and telephone number. A lot of money launderers succeed because they don't trust anyone. If they bribe an official, they know very well that the official who accepted the bribe from them will accept a bigger bribe from someone else. They know if he gets arrested, he will turn state's evidence and expose the money launderer in a plea-bargain situation. Therefore, the money launderer who operates in one area and bribes an official gets out of that area and moves across the country; here he starts up again under another name.

A large number of money launderers are never caught. There are so many of them using so many innovative techniques that the officials just can't keep up with them. However, when one is caught, if he has thought his operations out carefully, he does the following:

1) He has a good bondsman lined up. These bondsmen have national connections and can get bail bonds anywhere in the United States on short notice. Many are paid monthly

on a retainer basis, so they can put up bond quickly after a launderer is arrested. This is expensive, but the money launderer regards his freedom as more important than the cost of the bondsman. (This is much like a ship owner paying insurance to be protected in case the ship sinks during a storm.)

- 2) Lawyers play a big role. Most of the major money launderers have at least one lawyer, and many have a dozen or more on retainers, with the understanding that they will come immediately if their client is caught.
- 3) They use their constitutional right to give no information. They give their name, their address, and nothing more, and they demand to telephone their lawyer and their bondsman.
- 4) They refuse to answer any questions, make any statements, or sign any statements for the police.
- 5) He follows the advise of his lawyers explicitly: they don't let associates or friends or relatives influence them on how they should handle the case. The lawyer is a professional, and he knows how to get the launderer the best deal—and usually how to get off completely free.

